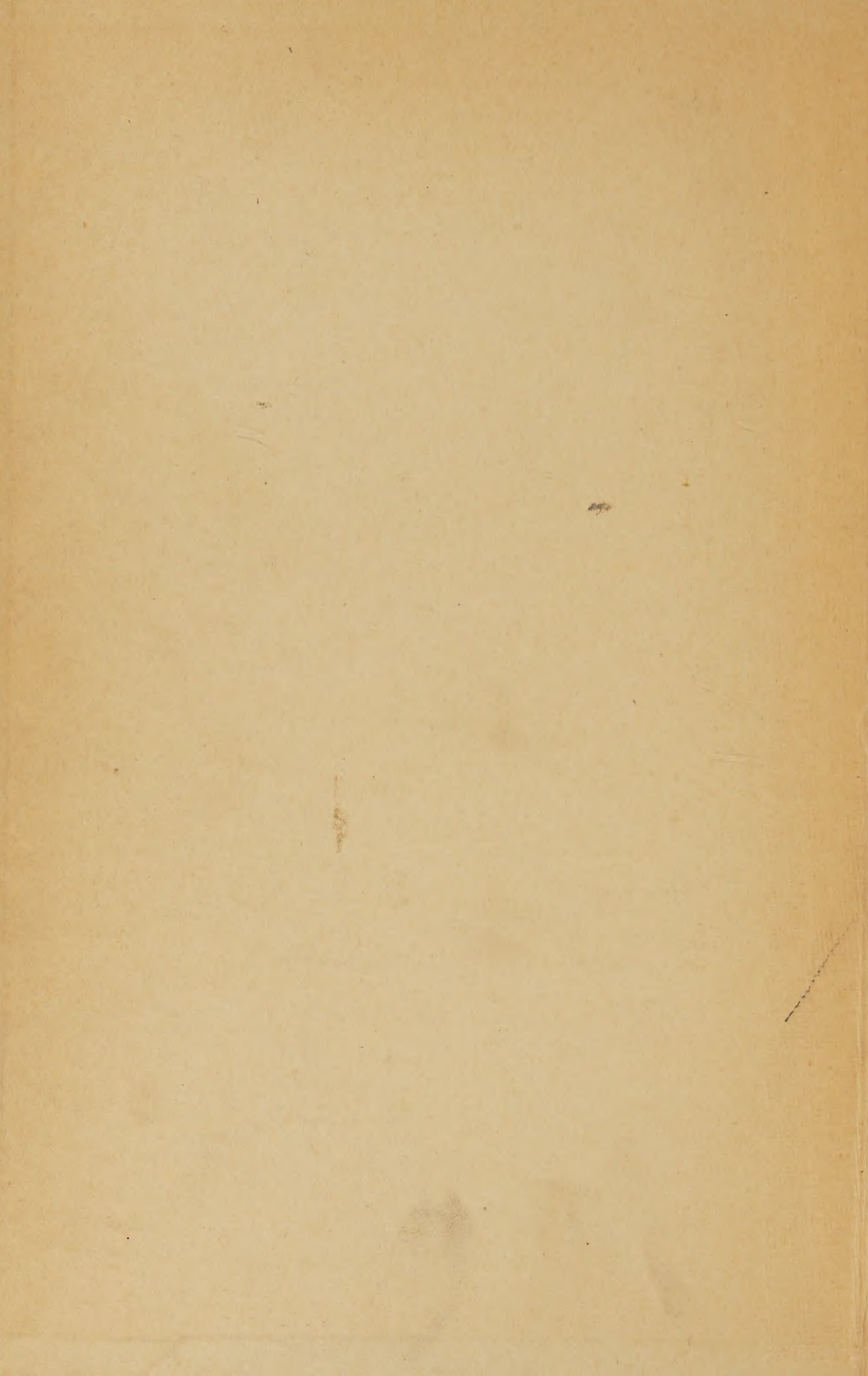


BOOKKEEPING AND ACCOUNTING

ELEMENTARY COURSE



ELWELL AND TONER



Edmund M^c Dougal
Campbellsport
Wis.

ELWELL · AND · TONER · SERIES

BOOKKEEPING AND ACCOUNTING

ELEMENTARY COURSE

BY

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PREFACE

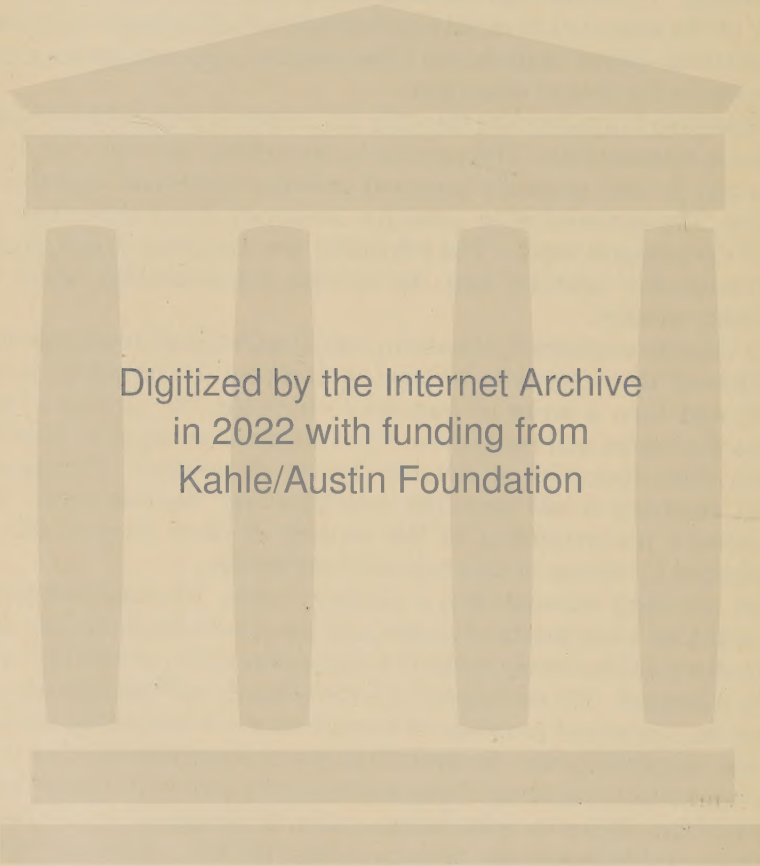
This book is much more than a collection of practical problems in bookkeeping. It unites with the study of bookkeeping and accounting a study of the essentials of social relationships, of self-reliance, of intelligent initiative, and of analysis and interpretation, and thus serves a useful purpose in the field of education.

Bookkeeping is approached through the student's personal knowledge of business transactions. This approach, exemplified here by a study of the journal, is very generally accepted as being consistent, logical, and effective. The material is so carefully developed and graded that the student's progress is rapid. The principles are discussed in accordance with present-day practice, and the student learns nothing which he must later unlearn.

Each chapter contains a discussion and illustration of some new subject, followed by exercises to be used in applying the principles as explained, and then a series of questions which may be used as a basis for class discussion and recitation. The instructor is urged to plan for as much class discussion of chapter content as possible. Throughout the text emphasis is laid upon the principles and "reasons why," and the student's understanding of the content of each chapter will be strengthened by means of this socialized recitation.

There are many exercises and a number of sets. The exercises are to be recorded on loose sheets of paper, and the sets in blank books. The sets are short, being merely series of transactions which cover the points already discussed. No new material is introduced, and thus the sets are more or less connected problems or narratives which enable the student to review complete cycles. Several of the sets are provided with optional business practice, consisting of papers commonly used in business today.

The authors desire to acknowledge their indebtedness to the many instructors and business men who have read the manuscript and made valuable suggestions for its improvement.



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CONTENTS

CHAPTER	PAGE
I. BUSINESS TRANSACTIONS	1
II. THE JOURNAL	9
III. POSTING AND THE LEDGER	21
IV. TRIAL BALANCE	29
V. THE PROFIT AND LOSS STATEMENT AND THE BALANCE SHEET	33
VI. CLOSING THE LEDGER	48
VII. NEW ACCOUNTS, CLASSIFICATION OF ACCOUNTS, AND SUMMARY OF PRINCIPLES OF DEBIT AND CREDIT	75
VIII. LOCATING AND CORRECTING ERRORS	88
IX. SET I. WHOLESALE FURNITURE BUSINESS	96
X. NOTES	100
XI. INTEREST ON NOTES	108
XII. SPECIAL JOURNALS	119
XIII. INTRODUCTION TO BUSINESS PRACTICE	138
XIV. SET II. AUTOMOBILE-TIRE BUSINESS	149
XV. ADDITIONAL BUSINESS FORMS AND ACCOUNTS	159
XVI. CASH DISCOUNTS — THREE-COLUMN CASH JOURNAL	168
XVII. OPENING THE BOOKS WITH MORE THAN ONE ASSET. THE USE OF THE OPENING MERCHANDISE INVENTORY ACCOUNT	178
XXVIII. SET III. RETAIL OFFICE-FURNITURE BUSINESS	192
XIX. SET III. RETAIL OFFICE-FURNITURE BUSINESS (CONTINUED)	206
XX. PARTNERSHIP ACCOUNTS	214
XXI. DRAFTS AND ACCEPTANCES	221
XXII. THE DISCOUNT AND RENEWAL OF NOTES	242
XXIII. UNEXPIRED INSURANCE — SUNDRY GENERAL EXPENSE . .	252
XXIV. SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS .	257
XXV. SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS (CONTINUED)	271
XXVI. EXPLANATION OF NEW ACCOUNTS	278
XXVII. CONTROLLING ACCOUNTS	295
XXVIII. ACCRUALS	309
XXIX. THE WORKING SHEET	320
XXX. C.O.D. SHIPMENTS	329
XXXI. SET V. WHOLESALE SPORTING-GOODS BUSINESS	333
XXXII. CONSIGNMENTS AND TRADE DISCOUNTS	341
INDEX	349

LIST OF EXERCISES

	PAGE
EXERCISE 1. EXCHANGE OF VALUES, ORAL	1
EXERCISE 2. EXCHANGE OF VALUES, ORAL	2
EXERCISE 3. MERCHANDISE BOUGHT AND SOLD FOR CASH, ORAL	3
EXERCISE 4. TRANSACTIONS INVOLVING CASH, MERCHANDISE, SERVICES, AND USE OF PROPERTY, ORAL	3
EXERCISE 5. MERCHANDISE BOUGHT ON ACCOUNT AND CASH PAID ON AC- COUNT, ORAL	5
EXERCISE 6. MERCHANDISE SOLD ON ACCOUNT AND CASH RECEIVED ON ACCOUNT, ORAL	6
EXERCISE 7. PURCHASES, SALES, PAYMENTS AND RECEIPTS; CASH PAID FOR SERVICES AND USE OF PROPERTY, ORAL OR WRITTEN	6
EXERCISE 8. TOPICS FOR CLASS DISCUSSION, ORAL	7
EXERCISE 9. DETERMINATION OF DEBITS AND CREDITS—MODEL JOURNAL, ORAL	11
EXERCISE 10. RULING	17
EXERCISE 11. JOURNALIZING	17
EXERCISE 12. JOURNALIZING	18
EXERCISE 13. JOURNALIZING	19
EXERCISE 14. TOPICS FOR CLASS DISCUSSION, ORAL	20
EXERCISE 15. TRACING POSTINGS FROM MODEL JOURNAL TO MODEL LEDGER, STUDY	26
EXERCISE 16. POSTING	26
EXERCISE 17. POSTING	26
EXERCISE 18. POSTING	27
EXERCISE 19. JOURNALIZING AND POSTING	27
EXERCISE 20. TOPICS FOR CLASS DISCUSSION, ORAL	28
EXERCISE 21. TRIAL BALANCE	32
EXERCISE 22. TRIAL BALANCE	32
EXERCISE 23. TRIAL BALANCE	32
EXERCISE 24. TOPICS FOR CLASS DISCUSSION, ORAL	32
EXERCISE 25. PROFIT AND LOSS STATEMENTS	35
EXERCISE 26. BALANCE SHEETS	38
EXERCISE 27. PROPRIETARY INTEREST AND CHANGES IN PROPRIETARY INTEREST	41
EXERCISE 28. WORKING SHEETS	45
EXERCISE 29. TOPICS FOR CLASS DISCUSSION, ORAL	46
EXERCISE 30. REVIEW	47
EXERCISE 31. CLOSING THE LEDGER	66
EXERCISE 32. TOPICS FOR CLASS DISCUSSION, ORAL	73
EXERCISE 33. ACCOUNTS WITH FUEL AND OFFICE SUPPLIES, ORAL OR WRITTEN .	78
EXERCISE 34. INVESTMENT AND DRAWING ACCOUNTS, ORAL OR WRITTEN . .	80
EXERCISE 35. USE OF NEW ACCOUNTS	80
EXERCISE 36. CLASSIFICATION OF ACCOUNTS, ORAL OR WRITTEN	83
EXERCISE 37. PRINCIPLES OF DEBIT AND CREDIT, ORAL	85
EXERCISE 38. TOPICS FOR CLASS DISCUSSION, ORAL	87

	PAGE
EXERCISE 39. CORRECTIONS AND CORRECTING ENTRIES	92
EXERCISE 40. TOPICS FOR CLASS DISCUSSION, ORAL	95
EXERCISE 41. MATURITY OF NOTES, ORAL	106
EXERCISE 42. NOTES RECEIVABLE AND NOTES PAYABLE	107
EXERCISE 43. TOPICS FOR CLASS DISCUSSION, ORAL	107
EXERCISE 44. NOTES AND INTEREST	111
EXERCISE 45. NOTES AND INTEREST	112
EXERCISE 46. NOTES AND INTEREST	112
EXERCISE 47. WORKING SHEETS, STATEMENTS, ADJUSTING AND CLOSING EN- TRIES	116
EXERCISE 48. TOPICS FOR CLASS DISCUSSION, ORAL	118
EXERCISE 49. PURCHASES JOURNAL	121
EXERCISE 50. SALES JOURNAL	124
EXERCISE 51. CASH JOURNAL	127
EXERCISE 52. GENERAL JOURNAL	129
EXERCISE 53. POSTING SPECIAL JOURNALS	130
EXERCISE 54. SPECIAL JOURNALS	136
EXERCISE 55. TOPICS FOR CLASS DISCUSSION, ORAL	137
EXERCISE 56. DEPOSIT TICKETS, CHECKS, RECONCILIATION	143
EXERCISE 57. INVOICES, RECEIPTS, CASH REPORTS	148
EXERCISE 58. TOPICS FOR CLASS DISCUSSION, ORAL	148
EXERCISE 59. MONTHLY BANK STATEMENT	158
EXERCISE 60. MERCHANDISE TRANSACTIONS, ORAL OR WRITTEN	166
EXERCISE 61. TOPICS FOR CLASS DISCUSSION, ORAL	167
EXERCISE 62. MERCHANDISE DISCOUNTS	171
EXERCISE 63. THREE-COLUMN CASH JOURNAL	174
EXERCISE 64. TOPICS FOR CLASS DISCUSSION, ORAL	176
EXERCISE 65. OPENING ENTRIES FOR INVESTMENTS OF MORE THAN ONE ASSET, ORAL OR WRITTEN	179
EXERCISE 66. OPENING THE BOOKS WITH BOTH ASSETS AND LIABILITIES	181
EXERCISE 67. OPENING MERCHANDISE INVENTORY	184
EXERCISE 68. STATEMENTS	186
EXERCISE 69. PROFIT AND LOSS STATEMENT, BALANCE SHEET, ADJUSTING AND CLOSING ENTRIES	190
EXERCISE 70. TOPICS FOR CLASS DISCUSSION, ORAL	191
EXERCISE 71. MONTHLY BANK STATEMENT	203
EXERCISE 72. REVIEW	204
EXERCISE 73. MONTHLY BANK STATEMENT	212
EXERCISE 74. REVIEW	212
EXERCISE 75. PARTNERSHIP ACCOUNTS	218
EXERCISE 76. TOPICS FOR CLASS DISCUSSION, ORAL	218
EXERCISE 77. REVIEW	219
EXERCISE 78. BANK DRAFTS, ORAL	223
EXERCISE 79. SIGHT DRAFTS, ORAL AND WRITTEN	227
EXERCISE 80. TIME DRAFTS AND ACCEPTANCES	233
EXERCISE 81. DRAFTS AND TRADE ACCEPTANCES	234
EXERCISE 82. NOTE REGISTER	236
EXERCISE 83. TOPICS FOR CLASS DISCUSSION, ORAL	238
EXERCISE 84. REVIEW	240
EXERCISE 85. DISCOUNTING NOTES PAYABLE	244
EXERCISE 86. DISCOUNTING NOTES RECEIVABLE AND ACCEPTANCES RECEIV- ABLE	246

LIST OF EXERCISES

ix

	PAGE
EXERCISE 87. DISCOUNTING NOTES, DRAFTS, AND ACCEPTANCES	248
EXERCISE 88. RENEWAL OF NOTES	250
EXERCISE 89. TOPICS FOR CLASS DISCUSSION, ORAL	251
EXERCISE 90. UNEXPIRED INSURANCE — SUNDRY GENERAL EXPENSE	254
EXERCISE 91. TOPICS FOR CLASS DISCUSSION, ORAL	255
EXERCISE 92. MONTHLY BANK STATEMENT	268
EXERCISE 93. REVIEW	269
EXERCISE 94. MONTHLY BANK STATEMENT	277
EXERCISE 95. USE OF NEW ACCOUNTS	284
EXERCISE 96. REVIEW	285
EXERCISE 97. MERCHANDISE TRADING ACCOUNT	290
EXERCISE 98. REAL AND NOMINAL ACCOUNTS, ORAL AND WRITTEN	291
EXERCISE 99. TOPICS FOR CLASS DISCUSSION, ORAL	294
EXERCISE 100. CONTROLLING ACCOUNTS	304
EXERCISE 101. TOPICS FOR CLASS DISCUSSION, ORAL	307
EXERCISE 102. ACCRUALS	314
EXERCISE 103. TOPICS FOR CLASS DISCUSSION, ORAL	315
EXERCISE 104. REVIEW	316
EXERCISE 105. WORKING SHEETS	327
EXERCISE 106. TOPICS FOR CLASS DISCUSSION, ORAL	327
EXERCISE 107. C. O. D. SALES	331
EXERCISE 108. TOPICS FOR CLASS DISCUSSION, ORAL	332
EXERCISE 109. CONSIGNMENTS	345
EXERCISE 110. TRADE DISCOUNTS	346
EXERCISE 111. TOPICS FOR CLASS DISCUSSION, ORAL	347
EXERCISE 112. REVIEW	347

LIST OF SETS

	PAGE
SET I. WHOLESALE FURNITURE BUSINESS	96
SET II. AUTOMOBILE-TIRE BUSINESS	149
SET III. RETAIL OFFICE-FURNITURE BUSINESS, APRIL	192
SET III. RETAIL OFFICE-FURNITURE BUSINESS, MAY	206
SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS, JUNE	257
SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS, JULY	271
SET V. WHOLESALE SPORTING-GOODS BUSINESS	333

BOOKKEEPING AND ACCOUNTING

CHAPTER I

BUSINESS TRANSACTIONS

Business Transactions. Practically all values, that is, things necessary or desirable for life, are obtained in exchange for other values. Certain necessities of life such as air, sunshine, and other gifts of Nature may be enjoyed by all in common. All other values belong to someone who parts with them only in exchange for other values.

A specific exchange of one value for another is called a *business transaction*. In every transaction, regardless of the amount involved or the nature of the values exchanged, there is a value received and a value parted with.

Exchange of Property. In the following illustrations one form of property is exchanged for another form of property, cash :

1. Your father bought from Rice & Co., for cash, an automobile, \$600.

The value received by your father was the automobile, which was worth \$600 ; the value parted with was cash, \$600.

Cash is the name given to paper money and coins, checks, money orders, etc.

2. Your father bought from French & Co., for cash, a radio set, \$250.

The value received by your father was the radio set, which was worth \$250 ; the value parted with was cash, \$250.

3. Your father sold Grimm & Co., for cash, a piano, \$350.

The value received by your father was the cash, \$350 ; the value parted with was the piano, which was worth \$350.

Exercise 1. Oral

EXCHANGE OF VALUES

Name the value received and the value parted with by Frank Dean in each of the following transactions :

1. He paid J. C. Evans cash, for a boat, \$35.
2. He paid E. L. Grady cash, for a fountain pen, \$3.
3. He sold J. A. Bell, for cash, a bicycle, \$20.
4. He paid Hook & Co. cash, for a hat, \$5.
5. He sold D. R. Frye, for cash, a house lot, \$400.

Exchange of Property for Use of Property and for Services. In addition to the exchange of one form of property for another form of property, cash, there may be an exchange of the use of property for cash or an exchange of labor or services for cash. The right of one person to occupy a house or store building owned by another person has value. The labor or services of a carpenter or of a clerk in a store also have value. In the following illustrations cash is exchanged for the use of property which belongs to others, and for the labor or services of others.

1. Your father paid T. M. Meek cash, for rent of a garage for a month, \$10.

The value received by your father was the use of the property, which was worth \$10; the value parted with was cash, \$10.

2. Your father paid William Brown cash, for repairing his automobile, \$8.

The value received by your father was the services of William Brown, which were worth \$8; the value parted with was cash, \$8.

3. Your father paid Alfred Stone, a clerk, cash, for his salary for one week, \$15.

The value received by your father was the services of Alfred Stone, which were worth \$15; the value parted with was cash, \$15.

4. J. M. Albert paid your father cash, for the tuning of a piano, \$5.

The value received by your father was cash, \$5; the value parted with was the services of your father, which were worth \$5.

Exercise 2. Oral

EXCHANGE OF VALUES

Name the value received and the value parted with by Frank Dean in each of the following transactions:

1. He paid H. M. Norris cash, for rent of a house for the month, \$50.
2. He paid J. S. Dewey, a clerk, cash, for services, \$15.
3. He paid D. D. Link cash, for repairing a watch, \$6.
4. He paid M. D. Sloane cash, for repairing his automobile, \$10.
5. He received of G. C. Case cash, for rent of a room for the month, \$15.

Merchandise. The values, or goods, which are regularly bought and sold in any business, are called *merchandise*. The term *merchandise* is a general term and is applied to the goods bought and sold in any business; thus it is applied to the coal and wood bought and sold in a coal business; to the flour, sugar, canned goods, vegetables, etc. bought and sold in a grocery business; to the drugs, candy, soda, stationery, etc. bought and sold in a drug store. To be classified as merchandise, it is essential that the goods be purchased with the intention of selling them again at a higher price.

Exercise 3. Oral

MERCHANDISE BOUGHT AND SOLD FOR CASH

Name the value received and the value parted with in each of the following transactions taken from the business of John K. Lane, a furniture dealer:

1. Bought of A. D. Sole, for cash, 3 dining-room tables @ \$25.

The symbol "@" before a price indicates the cost per unit; thus "@ \$25" means that each table costs \$25.

2. Bought of G. A. Lewis, for cash, 18 dining-room chairs @ \$72.

The unit price for chairs is "per dozen."

3. Bought of K. D. Noon, for cash, 30 rugs @ \$9.

4. Sold D. S. Locke, for cash, 4 rugs @ \$15.

5. Sold M. R. Ford, for cash, 6 dining-room chairs @ \$120.

6. Bought of Ware Furniture Co., for cash, 2 dining-room tables @ \$30.

7. Sold George A. Dorr, for cash, 1 dining-room table @ \$45.

8. Sold A. R. Munroe, for cash, 6 rugs @ \$15.

9. Bought of L. R. Brock, for cash, 2 pianos @ \$300.

10. Bought of D. L. Moore, for cash, 6 floor lamps @ \$20.

11. Sold Frank A. Hall, for cash, 2 dining-room tables @ \$45.

12. Sold D. M. Dane, for cash, 1 piano @ \$400.

Exercise 4. Oral

TRANSACTIONS INVOLVING CASH, MERCHANDISE, SERVICES,
AND USE OF PROPERTY

Name the value received and the value parted with in each of the following transactions taken from the retail automobile tire and accessory business of H. R. Hall:

Jan. 2, 19—. Paid C. A. Jenson cash, for rent of store for month of January, \$40.

The value received was the use of the store for the month and is referred to as *Rent Expense*.

3. Bought of Gordon & Co., for cash, automobile tires, \$1000.

4. Bought of Burns & Co., for cash, automobile accessories, \$120.

5. Sold T. M. Adams, for cash, tires, \$100.

6. Paid F. C. Weaver, a clerk, cash, for services to date, \$22.

The value received was the services of F. C. Weaver and is referred to as *Salary*.

10. Sold C. A. Marsh, for cash, tires, \$500.

12. Bought of A. P. Hart, for cash, accessories, \$190.
13. Paid F. C. Weaver cash, for services to date, \$22.
16. Sold S. W. Lord, for cash, accessories, \$50.
18. Sold M. R. Martin, for cash, accessories, \$200.
20. Paid F. C. Weaver cash, for services to date, \$22.
24. Bought of Gordon & Co., for cash, tires, \$480.
27. Paid F. C. Weaver cash, for services to date, \$22.
31. Sold C. J. Johnson, for cash, tires, \$300.

Merchandise Bought on Account. Merchandise may be bought and not paid for until some future date. The buyer does not pay the cash at the time the merchandise is received but promises to pay in the future. The value parted with by the buyer is the oral promise to pay. A transaction of this kind is called a *purchase on account*.

On Jan. 3, C. S. Briggs purchases from Scott & Co., on account at 10 da., automobile tires amounting to \$600.

At 10 da. means that Briggs promises to pay for the goods within 10 da.

The value received is the merchandise; the value parted with is the oral promise to pay Scott & Co. for the merchandise within 10 da. This value parted with may be represented by the name, *Scott & Co.*

The person who owes a debt is called a *debtor*.

The person to whom the debt is due is called a *creditor*.

Thus, in the above transaction, C. S. Briggs is the *debtor* and Scott & Co. is the *creditor*.

Cash Paid on Account. A payment by a debtor for goods previously bought on a promise to pay in the future is called a *payment on account*. The value received by the debtor when such a payment is made is the cancellation of his promise to pay. Since the value parted with at the time the promise was made was represented by the name of the creditor, then, when the promise is cancelled, the value received by the debtor is also represented by the creditor's name.

To illustrate, on Jan. 12, 19—, C. S. Briggs paid Scott & Co. for goods bought Jan. 3. The value parted with is cash; the value received by the debtor, C. S. Briggs, is the cancellation of his promise to pay for the merchandise purchased on account.

When this value, Briggs's promise to pay, was parted with, it was represented by the creditor's name, Scott & Co., and now that this value is received back, it is also represented by the creditor's name, Scott & Co.

A payment made in cancellation of a promise is called a payment on account. If the amount paid cancels the entire indebtedness, it is called a payment *in full of account*; if it cancels only a part of the debt, it is called a payment *to apply on account*.

Exercise 5. Oral

MERCHANDISE BOUGHT ON ACCOUNT AND CASH PAID ON ACCOUNT

Name the value received and the value parted with by H. R. Hall in each of the following transactions:

Jan. 6, 19—. Bought of K. D. Reed, at 10 da., tires, \$860.

8. Bought of C. N. Bishop, at 15 da., accessories, \$400.

9. Bought of B. D. Brown, at 10 da., tires, \$600.

10. Paid K. D. Reed cash, in full of account, \$860.

11. Bought of N. H. Sayles & Co., at 5 da., accessories, \$300.

13. Paid C. N. Bishop cash, to apply on account, \$200.

15. Bought of A. L. Dunn, at 15 da., tires, \$300.

16. Paid N. H. Sayles & Co. cash, in full of account, \$300.

17. Paid B. D. Brown cash, in full of account, \$600.

18. Bought of B. S. Lacey, at 10 da., accessories, \$100.

20. Paid C. N. Bishop cash, in full of account, \$200.

24. Paid A. L. Dunn cash, to apply on account, \$150.

26. Paid B. S. Lacey cash, in full of account, \$100.

29. Paid A. L. Dunn cash, in full of account, \$150.

Merchandise Sold on Account. Merchandise may be sold on account; that is, on a promise to pay at some future date. The seller of the merchandise does not receive the cash at the time the goods are parted with, but receives merely the oral promise of the customer to pay in the future. A sale of this kind is called a *sale on account*.

On Jan. 8, C. S. Briggs sells B. K. Greene, on account at 10 da., tires amounting to \$120.

The value received by C. S. Briggs at the time he sells the goods is the oral promise of B. K. Greene to pay for the goods within 10 da. This value received may be represented by the name, *B. K. Greene*. The value parted with is merchandise.

In this case, C. S. Briggs is the *creditor* and B. K. Greene is the *debtor*.

Cash Received on Account. Cash received by a creditor in payment of a promise given by a debtor is called a *receipt on account*. The value received by the creditor is the cash; the value parted with by the creditor is the debtor's promise to pay. Since this value (the promise to pay) when received was represented by the debtor's name, now when the value is parted with, it is also represented by the debtor's name.

To illustrate: On Jan. 17, C. S. Briggs received of B. K. Greene cash, in full of account, \$120. The value received is cash and cancels the B. K. Greene promise to pay; the value parted with is, therefore, his promise to pay, which is represented by the name, *B. K. Greene*.

Exercise 6. Oral

MERCHANDISE SOLD ON ACCOUNT AND CASH RECEIVED
ON ACCOUNT

Name the value received and the value parted with by H. R. Hall in each of the following transactions:

Jan. 5, 19—. Sold Chas. A. Mason, at 5 da., tires, \$150.

8. Sold Hughes & Co., at 10 da., tires, \$410.

9. Received of Chas. A. Mason cash, in full of account, \$150.

12. Sold Geo. A. Holt, at 15 da., accessories, \$175.

13. Sold L. A. Wilson, at 15 da., tires, \$315.

15. Received of Hughes & Co. cash, in full of account, \$410.

16. Received of L. A. Wilson cash, to apply on account, \$115.

To apply on account means that but a part of what was owed on a given account was paid.

17. Sold F. B. Stone, at 10 da., tires, \$100.

22. Received of Geo. A. Holt cash, in full of account, \$175.

25. Received of F. B. Stone cash, in full of account, \$100.

27. Received of L. A. Wilson cash, in full of account, \$200.

Exercise 7. Oral or Written

PURCHASES, SALES, PAYMENTS AND RECEIPTS; CASH PAID FOR
SERVICES AND USE OF PROPERTY

The following transactions taken from the business of B. A. Miller, a dealer in trunks and bags, are to be written on sheets of plain writing paper, following the form illustrated below. For each transaction, write the *date, name, and amount of the values received and parted with*, and a brief *explanation* of the transaction.

Jan. 2, 19—. Bought of Union Trunk Co., for cash, 12 trunks @ \$15.

2. Bought of A. D. Long & Co., for cash, a desk and chair for office use, \$65.50.

The value received is the desk and chair and is referred to as *Furniture and Furnishings*.

These two transactions should appear on your paper as follows:

Jan. 2, 19—

Value Received — Merchandise	\$180.00	
Value Parted With — Cash		\$180.00
Trunks bought of Union Trunk Co.		

2¹

Value Received — Furniture and Furnishings	\$65.50
Value Parted With — Cash	\$65.50
Desk and chair bought of A. D. Long & Co.	

2. Paid A. D. Johnson cash, for rent of store for January, \$80.
4. Bought of H. M. Field, on account, 12 brief cases @ \$9.75.
5. Sold A. B. Barr, for cash, 1 trunk @ \$20.
10. Bought of A. H. Warner, for cash, a show case, \$70.

All purchases of show cases, store fixtures, desks, etc. are referred to as *Furniture and Furnishings*.

11. Paid H. M. Field cash, in full of account, \$117.
13. Sold William Sloane, at 20 da., 4 brief cases @ \$13.50.
15. Paid A. L. Young, a clerk, cash, for services to date, \$40.

The value received by Mr. Miller was the services of A. L. Young and is referred to as *Salary*.

16. Bought of Black & Co., at 20 da., 12 traveling bags @ \$15.
17. Sold Samuel Jones, on account, 1 traveling bag @ \$20.
18. Bought of D. K. Rich, on account, 24 suitcases @ \$15.
20. Sold B. A. Loring, at 10 da., 1 trunk @ \$20.
23. Received of Samuel Jones cash, in full of account, \$20.
25. Paid D. K. Rich cash, to apply on account, \$200.
26. Paid Black & Co. cash, to apply on account, \$100.
27. Received of William Sloane cash, to apply on account, \$20.
30. Received of B. A. Loring cash, in full of account, \$20.
31. Paid A. L. Young cash, for services to date, \$40.

In making the written record of each of the above transactions, the following information was recorded: The *date* on which the transaction took place, the *name* of the *value received* and the *name* of the *value parted with*, the *amount* of the *value received* and the *amount* of the *value parted with*, and a brief *explanation* of the transaction.

Exercise 8. Oral

TOPICS FOR CLASS DISCUSSION

1. Name some things which have value. Why are they said to be valuable?
2. What is included in the term *cash*?
3. What is the purpose of businesses? Could business houses be dispensed with today?

¹ Write the month, day, and year above the first transaction on each sheet. Write only the day of the month for the transactions after the first.

The value parted with should be written on the line below the value received and should be indented about half an inch.

4. Name some of the articles that would be included in the term *merchandise* in a hardware store; in a furniture store; in a bakery; in a dry-goods business; in a shoe store.

5. What are two ways by which merchandise may be bought?

6. What are two ways by which merchandise may be sold?

7. Explain the meaning of the expression *merchandise bought on account*; of the expression *merchandise bought at 30 da.*

8. What value is parted with when merchandise is bought on account? How is this value represented?

9. *a.* What does *payment on account* mean?

b. What does *payment in full of account* mean?

10. What value is received when merchandise is sold on account? How is this value represented?

11. What information should be recorded for every transaction?

CHAPTER II

THE JOURNAL

Bookkeeping. Through business transactions values are constantly being received and parted with by a business. To account for values received and parted with, a written record of every transaction is necessary.

The systematic recording of business transactions is called *bookkeeping*. This record to be complete must show both the value received and the value parted with.

That system of bookkeeping which for every transaction records both the value received and the value parted with is called *double-entry bookkeeping*.

The Journal. Each transaction as it occurs is analyzed into its two elements — the value received and the value parted with. The record (the date, the name of the value received and the name of the value parted with, the amount of the value received and the amount of the value parted with, and the explanation) of the transaction may then be made in a book called a *journal*.

The record of the transaction in the journal is called the *entry*.

The entry is made immediately after the transaction has taken place, so that the journal should contain a complete analysis of all transactions.

The journal is ruled to facilitate the recording of transactions; the standard ruling of a journal page is shown in the following illustration. The use of the various columns on a journal page also is indicated in this illustration.

(Months day, year)

F	Names of Value Received	Amount of Value Received	Names of Value Parted With	Amount of Value Parted With
	A brief, clear, explanation of the transaction			
	(day of next transaction)			

STANDARD JOURNAL RULING

1 F. is the abbreviation for the word "Folio," and means page.

Illustration of Journal Entry. To illustrate the method of making entries in the journal, the following transaction will be used as a model :

Jan. 2, 19—. Paid T. R. Barlow cash, for rent of store for the month of January, \$50.

This transaction must first be analyzed to determine the two elements — the value received and the value parted with. The value received is the use of the store, which is represented by the name *Rent Expense*; the value parted with is *Cash*.

The entry is then made in the journal, as shown below :

In making the record in the journal it is unnecessary to write "*value received*" and "*value parted with*" as they are implied by the positions of the names of the values; the name of the value received is written first, and the name of the value parted with is written on the line below, slightly indented.

January 2, 19—

<i>Rent Expense</i>	<i>50—</i>	
<i>Cash</i>		<i>50—</i>
<i>Paid T. R. Barlow</i>		
<i>cash for rent of store</i>		
<i>for January.</i>		

A MODEL JOURNAL ENTRY

The month, day, and year are written at the top of every journal page. Only the day of the month is indicated for subsequent transactions on the page. This is written in the middle of the page on a line left between the entries for that purpose.

NOTE. On some journal sheets there is a column for recording the date at the left of the page.

The name of the value received is written at the extreme left of the wide column, close to the line.

The amount of the value received is written on the same line with the name in the left money column.

The name of the value parted with is written on the next line under the name of the value received and is indented to the right about half an inch.

The amount of the value parted with is written on the same line with the name in the right money column.

The positions of the names of the values received and parted with are extremely important because they are universally understood to indicate the value received and the value parted with, respectively.

A brief explanation of the transaction is written on the line below the name of the value parted with and is indented about one-half inch under it. The entire explanation should be written in the wide column. In case more than one line is required, the remainder of the explanation should begin about half an inch to the left of the first line of the explanation. The explanation for an entry is very important. It should be so worded that it will furnish a brief, clear, and yet complete statement of the transactions.

The single red line in each money column divides the column into two parts: the right of the single red line is used for fractions of a dollar, that is, cents; the left of the single red line is used for dollars.

When the amount is in even dollars, a small horizontal dash may be made in the cents column to indicate that the cents have not been accidentally omitted. Another practice is to place two zeros in the cents column.

Debit and Credit. In bookkeeping, values received are called *debits* and values parted with are called *credits*. From this point on, the terms *debit* and *credit* will be used in referring to values received and values parted with, respectively. Each business transaction thus may be separated into the debit and credit elements entering into that transaction.

The determination of the debit and the credit elements in a business transaction is called *journalizing*.

Exercise 9. Oral

DETERMINATION OF DEBITS AND CREDITS — MODEL JOURNAL

Name the debit and credit in each of the following transactions which have been selected from the business of A. M. Bond, a shoe wholesaler. After the debit and credit elements for each transaction have been determined, the student should refer to the entry for the transaction in the model journal on pages 12, 13, and 14.

Jan. 2, 19—. A. M. Bond began a wholesale shoe business at 120 Main St., Boston, Mass., investing cash, \$2000.

Cash is debited because it is received; *A. M. Bond, Proprietor*, is credited because the business parts with a claim to A. M. Bond for the money he invests in the business. This credit therefore shows the investment the proprietor made in the business and is represented by his name.

3. Paid T. M. Meyer cash, for rent of store for January, \$60.

4. Bought of M. L. Davis, 142 Union St., City, for cash, showcases and small desk for store and office use, \$100.

5. Bought of Johnson & Co., 260 Water St., City, for cash, shoes, \$1000.

The debit is called *Merchandise Purchases* and is used to record the cost of all merchandise bought for resale.

January 2, 19-

	<i>A. M. Bond this day began the wholesale shoe business at 120 Main St., Boston, Mass. investing cash, \$2,000.</i>	
24	<i>Cash</i>	2000—
24	<i>A. M. Bond, Proprietor To record investment of A. M. Bond.</i>	2000—
	<i>3</i>	
25	<i>Rent Expense</i>	60—
24	<i>Cash</i>	60—
	<i>Paid T. M. Meyer cash for rent of store for January.</i>	
	<i>4</i>	
24	<i>Furniture and Furnishings</i>	100—
24	<i>Cash</i>	100—
	<i>Showcases and desk bought of M. L. Davis</i>	
	<i>5</i>	
25	<i>Merchandise Purchases</i>	1000—
24	<i>Cash</i>	1000—
	<i>Shoes bought of Johnson & Co.</i>	
	<i>6</i>	
25	<i>Merchandise Purchases</i>	660—
24	<i>S. L. Martin</i>	660—
	<i>Shoes bought on account at 10 day</i>	
	<i>6</i>	
25	<i>Salary</i>	18—
24	<i>Cash</i>	18—
	<i>Paid M. C. Hall for services to date.</i>	

January 8, 19-

24	Cash	300~	
25	Merchandise Sales		300~
	Shoes sold to A. L. Chase		
	10		
24	R. A. King	360~	
25	Merchandise Sales		360~
	Shoes sold on account		
	at 10 da.		
	11		
24	S. L. Martin	660~	
24	Cash		660~
	Cash paid in full of ac-		
	count.		
	12		
24	Cash	360~	
24	R. A. King		360~
	Cash received in full of		
	account.		
	13		
25	Merchandise Purchases	725~	
24	B. L. Bemis		725~
	Shoes bought on ac-		
	count at 20 da.		
	13		
25	Salary	18~	
24	Cash		18~
	Paid M. C. Hall for serv-		
	ices to date.		
	15		
24	A. B. Blue	575~	
25	Merchandise Sales		575~
	Shoes sold on account at 10 da.		

January 16, 19-

24	Cash	270—	
25	Merchandise Sales		270—
	Shoes sold to J. M. Irwin		
	17		
24	B. L. Bemis	600—	
24	Cash		600—
	Cash paid to apply on		
	account.		

A MODEL JOURNAL

6. Bought of S. L. Martin, 140 Market St., Providence, R. I., at 10 da., shoes, \$660.

6. Paid M. C. Hall, a clerk, cash for services to date, \$18.

8. Sold A. L. Chase, 62 East St., Westfield, Mass., for cash, shoes, \$300.

The credit is called *Merchandise Sales* and is used to record the selling price of all merchandise sold.

10. Sold R. A. King, 20 Central St., Lawrence, Mass., at 10 da., shoes, \$360.

11. Paid S. L. Martin cash, in full of account, \$660.

12. Received of R. A. King cash, in full of account, \$360.

13. Bought of B. L. Bemis, 40 Canal St., Springfield, Mass., at 20 da., shoes, \$725.

13. Paid M. C. Hall cash, for services to date, \$18.

15. Sold A. B. Blue, 80 Mound St., Lowell, Mass., at 10 da., shoes, \$575.

16. Sold J. M. Irwin, 128 Fifth St., City, for cash, shoes, \$270.

17. Paid B. L. Bemis cash, to apply on account, \$600.

The transactions of this exercise are entered in the model journal illustrated on pages 12-14.

A brief opening statement summarizing the conditions under which the business was begun is written in the journal before a single transaction is recorded.

Analysis of the Entries in the Model Journal. The following analysis of the entries in the model journal shows the reasons why the names of certain values were debited and why the names of other values were credited.

- Entry 1.** *Cash* is debited because value was received by the business under this title.
A. M. Bond, Proprietor, is credited because he parted with cash, his investment in the business.
- Entry 2.** *Rent Expense* is debited because value was received by the business in the use of the store.
Cash is credited because value was parted with by the business under this title.
- Entry 3.** *Furniture and Furnishings* is debited because value was received by the business under this title.
Cash is credited because value was parted with by the business under this title.
- Entry 4.** *Merchandise Purchases* is debited because value was received by the business under this title.
Cash is credited because value was parted with by the business under this title.
- Entry 5.** *Merchandise Purchases* is debited because value was received by the business under this title.
S. L. Martin is credited because he parted with value; the business became indebted to him; an oral promise was given for the merchandise bought.
- Entry 6.** *Salary* is debited because value was received by the business in the form of service.
Cash is credited because value was parted with by the business under this title.
- Entry 7.** *Cash* is debited because value was received by the business under this title.
Merchandise Sales is credited because value was parted with by the business under this title.
- Entry 8.** *R. A. King* is debited because he received value; he became indebted to the business; an oral promise was received for the merchandise sold.
Merchandise Sales is credited because value was parted with by the business under this title.
- Entry 9.** *S. L. Martin* is debited because he received value from the business; the business redeemed its oral promise to him.
Cash is credited because value was parted with by the business under this title.
- Entry 10.** *Cash* is debited because value was received by the business under this title.
R. A. King is credited because he has parted with value to the business; he redeemed his oral promise to the business.
- Entry 11.** *Merchandise Purchases* is debited because value was received by the business under this title.
B. L. Bemis is credited because he parted with value; the business became indebted to him; an oral promise was given for the merchandise bought.

- Entry 12.** *Salary* is debited because value was received by the business in the form of service.
Cash is credited because value was parted with by the business under this title.
- Entry 13.** *A. B. Blue* is debited because he received value; he became indebted to the business; an oral promise was received for the merchandise sold.
Merchandise Sales is credited because value was parted with by the business under this title.
- Entry 14.** *Cash* is debited because value was received by the business under this title.
Merchandise Sales is credited because value was parted with by the business under this title.
- Entry 15.** *B. L. Bemis* is debited because he received value from the business; the business partially redeemed its oral promise to him.
Cash is credited because value was parted with by the business under this title.

Summary of Principles. In the study of the preceding analysis it has been seen that we *debit* and *credit*, under the appropriate titles, as follows:

DEBIT	CREDIT
1. Merchandise or other property which is bought.	2. Merchandise or other property which is sold.
3. Use of others' property or of services which are received.	4. Use of owned property by others or of services which are rendered.
5. All moneys received.	6. All moneys paid out.
7. Persons when they become indebted to the business.	8. Persons when the business becomes indebted to them.
9. Persons when payments are made by the business to them.	10. Persons when they make payments to the business.

From the foregoing it is found that *the general principle for journalizing* is

Debit, under appropriate titles, values that are received by the business.

Credit, under appropriate titles, values that are given by the business.

MECHANICS OF BOOKKEEPING

Penmanship. A record of transactions is kept, not only for the benefit of the person keeping the books, but also for the information of others. It is important that the record be easily read by anyone who has occasion to consult the books. Students should strive to develop a style of handwriting which is neat and legible. While no particular style is essential, yet the script illustrations given in the text are excellent models of good penmanship.

Figures. Figures should be made carefully so that the possibilities of mistaking one figure for another will be reduced to a minimum. Figures should not be any larger in size than an ordinary small letter. Increasing the size of figures does not necessarily mean that they become more distinct. The forming of figures correctly, whether large or small, is most essential. Below are given the figures from 1 to 10, which are correctly formed and about the right size for ordinary use:

1234567890

Suggestions for Ruling. Good mechanical work is essential in book-keeping. If good results are to be secured, the pen, the ruler, and the blotter must be used in the right way.

In ruling always have a blotter at hand; use a medium pen, not too fine; dip the pen in the ink lightly; avoid getting ink on the ruler. Some bookkeepers prefer to use red ink in ruling.

Exercise 10. Written

RULING

Use ordinary ruled writing paper; sit facing the desk; place the paper directly in front of you.

Place the ruler, with beveled edge up, just below the first ruled line on the page; keeping the pen on the ruled line with the point inclined from the ruler, draw a line across the page, as follows:

Do not lift the pen until the line is finished. Continue this ruling until you have ruled a line on every blue line on the page.

Now rule lines *between* the ruled lines on the page just finished.

Use a second sheet of paper for ruling *double* lines. Draw a single line on the blue line; without moving the ruler but inclining the pen slightly forward, draw a second line just underneath the first. You now have parallel lines across the page.

Parallel lines: =====

Repeat the parallel ruling until both sides of the sheet have been ruled, then rule parallel lines between the lines already ruled.

This work in ruling should be repeated from day to day until good results are secured.

Exercise 11. Written

JOURNALIZING

Rule two sheets of plain paper following the form of the journal page illustrated on page 9 of the text.

Regular journal paper may be used if the instructor does not desire the student to rule plain paper.

Without referring to the model in the text any more than necessary, make entries for the transactions of Exercise 9 on page 11.

After this exercise has been corrected and approved by the instructor, keep the work for use in a subsequent exercise.

Exercise 12. Written

JOURNALIZING

Journalize the following transactions, taken from the business of F. L. Mathews.

Regular journal paper may be used or plain paper may be ruled if additional drill on ruling is desired.

Feb. 1, 19—. F. L. Mathews began the florist business at 120 State St., Cleveland, Ohio, investing cash, \$1500.

2. Paid S. R. James cash, for rent of store for February, \$60.

2. Bought of the Jenkins Co., 28 Main St., City, for cash, a desk, 2 chairs, a table, a typewriter, and other office furnishings, \$220.

4. Bought of Wm. Farr, 320 Davis St., City, at 10 da., 200 potted plants, \$250.

5. Bought of Fred Olson, 80 Mound St., City, for cash, flowers, \$190.

9. Paid J. T. Jordan, a clerk, cash, for services to date, \$16.

In this exercise the clerk and the proprietor each receive a salary. The debit should therefore be called *Salaries*.

9. Sold to H. N. Rhodes, 240 Wells St., City, for cash, 10 potted plants @ \$2.25.

9. Sold William K. Reed, 420 Summit Ave., City, at 20 da., flowers, \$83.50.

11. Paid William Farr cash, in full of account, \$250.

14. Sold to B. R. Blaine, 14 Harris St., City, on account, 3 special floral pieces @ \$27.

16. Paid J. T. Jordan cash, for services to date, \$16.

20. Bought of A. K. Holmes, 360 Adams St., City, at 10 da., 1000 assorted bulbs, \$60.

22. Bought of D. M. Wilson, 47 Jackson St., City, for cash, flowers, \$250.

23. Sold B. M. Ryan, 430 Market St., City, for cash, 50 potted plants @ \$1.75.

23. Paid J. T. Jordan cash, for services to date, \$16.

26. Bought of P. A. Weber, 17 North St., City, for cash, 2 dozen fancy baskets @ \$7.20.

27. Received of William K. Reed cash, in full of account, \$83.50.

28. Paid F. L. Mathews, the proprietor, cash, for salary for month, \$100.

The salary paid the proprietor is treated the same as the salary paid a clerk.

28. Sold B. L. Kane, 306 Blair St., City, at 10 da., 130 potted plants @ \$1.80. 180
100
400

After this exercise has been corrected and approved by the instructor, keep the work for use in a subsequent exercise.

Exercise 13. Written

JOURNALIZING

Journalize the following transactions, taken from the business of John K. Martin, a dealer in radio sets and parts. Use regular journal paper.

March 1, 19—. John K. Martin began the radio business, investing cash, \$2000.

1. Paid L. S. Boyd cash, for rent of store at 40 Central St. for March, \$50.

3. Bought of the Central Manufacturing Co., City, for cash, sundry radio supplies, \$620.

4. Bought of Parker & Co., City, for cash, a desk, 2 chairs, and counters, \$120.

4. Sold J. M. Schulte, City, for cash, radio supplies, \$60.

5. Bought of Beck & Co., City, at 10 da., 12 complete radio sets, \$480.

6. Sold C. H. Barron, City, for cash, 1 radio set, \$75.

7. Sold H. A. Sweet, City, at 10 da., 1 radio set, \$75.

8. Paid H. R. Evans, a clerk, cash, for services to date, \$15.

In this exercise the clerk and the proprietor each receive a salary. The debit should therefore be called *Salaries*.

11. Received of H. A. Sweet cash, in full of account, \$75.

12. Sold C. T. Parker, City, for cash, 1 radio set, \$75.

14. Sold R. K. Blake, City, at 10 da., radio supplies, \$40.

15. Paid Beck & Co. cash, in full of account, \$480.

15. Paid H. R. Evans cash, for services to date, \$15.

15. Paid John K. Martin cash, to apply on his monthly salary, \$50.

18. Bought of Frank Bell & Son, City, at 20 da., 10 complete radio sets, \$900.

20. Received of R. K. Blake cash, in full of account, \$40.

21. Sold B. K. Brown, City, for cash, 1 radio set, \$150.

22. Paid H. R. Evans cash, for services to date, \$15.

25. Sold T. M. Hunter, City, at 10 da., 6 radio sets and radio supplies, \$900.

- 27. Paid Frank Bell & Son cash, to apply on account, \$500.
- 29. Paid H. R. Evans cash, for services to date, \$15.
- 31. Paid J. K. Martin cash, to apply on his monthly salary, \$50.

After this exercise has been corrected and approved by your instructor, keep the work for use in a subsequent exercise.

Exercise 14. Oral

TOPICS FOR CLASS DISCUSSION

1. Define and explain *double-entry bookkeeping*.
2. Why is the name *double entry* used?
3. Describe a journal page.
4. What should be written at the top of every journal page?
5. *a.* Where is the name of the value received written in the journal? the amount?
- b.* Where is the name of the value parted with written in the journal? the amount?
6. What is an *entry*? What should it contain?
7. What should the explanation of an entry contain?
8. How should even dollars be written in the money column? Why? Why should figures be carefully made?
9. *a.* What is a *debit*? What is a *credit*?
- b.* What name do you use to indicate the debit when the business
 - (1) sells goods on account?
 - (2) pays cash for rent?
 - (3) pays cash for the services of an employee?
 - (4) pays a creditor cash on account?
 - (5) buys merchandise?
- c.* What name do you use to indicate the credit when the business
 - (1) pays out cash?
 - (2) sells merchandise?
 - (3) receives of a customer a payment on account?
10. Define *journalizing*.
11. What is meant by *investment in a business*?
12. State the general principle for journalizing.

CHAPTER III

POSTING AND THE LEDGER

The entry in the journal gives the debit, the value received, and the credit, the value parted with, for each transaction.

Grouping Like Debits and Like Credits Together. Although such a record shows the debit and the credit elements of each transaction, it is highly desirable that like debits and like credits be grouped together and summarized, so that the total amount, or volume, of like elements may be known for a given period of time. To illustrate, in order to determine how much cash was received and how much cash was paid out in the transactions recorded in the model journal, pages 12-14, it is necessary to summarize the *Cash* entries. Such a summary may be prepared in the following form :

CASH DEBITS		CASH CREDITS	
Jan. 2	\$2000	Jan. 3	\$60
8	300	4	100
12	360	5	1000
16	270	6	18
		11	660
		13	18
		17	600
Total Debits	<u>\$2930</u>	Total Credits	<u>\$2456</u>

Note that all cash items appearing in the model journal are grouped together in this summary, the debits in the journal on the left side of the summary and the credits in the journal on the right side. In the journal these cash items were scattered over three pages and were entered as they occurred in business transactions, so that it would be quite difficult to find the total cash received (debits), the total cash paid out (credits), or the amount of cash on hand. By grouping these *Cash* debits and credits together, such information is available readily.

Since the total debits, cash receipts, are \$2930, and the total credits, cash payments, are \$2456, the difference between these sums, or \$474, should be the amount of cash on hand, which is called the *cash balance*.

The Ledger. To summarize like values arising in different transactions, a book called the *ledger* is used, the pages of which are ruled to facilitate this process. A model ledger ruling is shown on the following page.

By custom, the left side of this ledger page is used to record the debits from the journal, and it is called the *debit side* of the ledger. Likewise, credits from the journal are recorded on the right side of this ledger page, and it is called the *credit side* of the ledger.

Name of Account									
Year Month Day			J. F.	Debit Amount	Year Month Day			J. F.	Credit Amount

STANDARD LEDGER RULING

Note that both sides of the ledger have the same ruling.

The Account. The amount of each debit item in the journal is transferred to the debit side of the ledger under the same title that was used in the journal entry, and the amount of each credit item in the journal is likewise transferred to the credit side of the ledger under the same title that was used in the journal entry. Thus debits and credits having the same title are brought together under that heading. An *account* is a collection of related debits and credits under one descriptive title, name, or heading.

Posting. The process of transferring debits and credits to their respective accounts in the ledger is called *posting*.

By posting the debits and the credits as they occurred in the daily transactions recorded in the journal to the appropriate accounts in the ledger, a classification of debits and credits by accounts is secured. Some accounts may contain but one debit or one credit, but other accounts may contain several debits or several credits.

The uses of the different spaces and columns of a ledger page are indicated in the illustration, and a summary explanation of these uses follows herewith:

The name of the account is written at the top and in the middle of the page.

The amount of the debit is written in the money column on the left side of the ledger page.

The amount of the credit is written in the money column on the right side of the ledger page.

The page of the journal from which the amount is transferred is written in the F. column, called the folio column.

The initial of the book from which the item is obtained is written at the extreme right of the wide explanation columns; that is, *J.* for journal.

The year, month, and day are written in the spaces indicated in the model.

To summarize, the ledger contains under appropriate account titles the debits and the credits of the business which were recorded in the journal, day by day, as the business transactions occurred. The debit to a certain account in the journal is posted to the debit of that same account in the ledger, and a credit to an account in the journal is posted to the credit of that same account in the ledger. Thus all debits and credits of like accounts are grouped together in the ledger, instead of being scattered over different pages, as they may be in the journal.

To illustrate the posting of the journal to the ledger, the transactions recorded in the model journal on pages 12-14 are used.

An account is opened in the ledger by writing the name of the account, as a heading, in the middle of the ledger page. Each different account name that appears in the journal requires an account of the same name in the ledger. The accounts in the ledger are arranged in the order in which they will be used later.

Explanation of Posting from Model Journal. The posting of the first entry in the model journal on pages 12-14 is explained below to illustrate the procedure in posting.

The first debit in the journal is to *Cash*. The amount of this debit, \$2000, is first transferred to the debit money column of the *Cash* account in the ledger; the page of the journal from which this amount is transferred is written in the debit folio column and the initial "J." is written in the explanation column to the left of the page number; the year is written at the top of the debit date column, and the month and the day are written on the line below.

The page of the ledger to which the *Cash* debit amount is posted is now written in the folio column of the journal at the left of *Cash*.

The first credit in the journal is to *A. M. Bond, Proprietor*. The amount of this credit, \$2000, is first transferred to the credit money column of the *A. M. Bond, Proprietor*, account in the ledger; the page of the journal from which this amount is transferred is written in the credit folio column, and the initial "J." is written in the explanation column to the left of the page number; the year is written at the top of the credit date column, and the month and the day are written on the line below.

The page of the ledger to which this *A. M. Bond, Proprietor*, item is posted is now written in the folio column of the journal, at the left of *A. M. Bond, Proprietor*.

NOTE. It is advisable in posting to transfer the *amount* of the debit or credit first, in order that the figures in the amount may not be mixed with any other figures.

Some persons follow the practice of posting first all debit items in the journal and then of posting all credit items. The instructor may

Cash

19- Jan. 2	J 12	2000-	19- Jan. 3	J 12	60-
8	J 13	300-	4	J 12	100-
12	J 13	360-	5	J 12	1000-
16	J 14	270-	6	J 12	18-
		2430-	11	J 13	660-
			13	J 13	18-
			17	J 14	600-
					2456-

A. B. Blue

80 Mound Street			Lowell, Mass.
19- Jan. 15	J 13	575-	

R. A. King

	20 Central Street				Lawrence, Mass.
19- Jan. 10	J 13	360 -	19- Jan. 12	J 13	360 -

Furniture and Furnishings

19- Jan. 4	J 12	100-
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B. L. Bemis

40 Canal Street			Springfield, Mass.		
19- Jan. 17	J 14	600-	19- Jan. 13	J 13	725-

S. L. Martin

	140 Market Street				Providence, R.I.	
19- Jan. 11	J 13	660-	19- Jan. 6	J 12	660-	

A. M. Bond, Proprietor

19- Jan. 2	J 12	2000-
---------------	------	-------

Merchandise Sales

19-	Jan.	8	J 13	300-
		10	J 13	360-
		15	J 13	575-
		16	J 14	270-
				1,505-

Merchandise Purchases

19-	Jan.	5	J 12	1000-
		6	J 12	660-
		13	J 13	725-
				1,385-

Rent Expense

19-	Jan.	3	J 12	60-
-----	------	---	------	-----

Salary

19-	Jan.	6	J 12	18-
		13	J 13	18-
				36-

A MODEL LEDGER

follow the method illustrated above — of posting the debit to an entry and then the credit — or he may instruct the student to post all debit items first and then all credit items.

Necessity for Indicating Folios. Particular attention is called to the necessity of putting in the ledger the folio of the journal from which the item has been transferred and in the journal the folio of the ledger to which the item has been posted. This notation of the folio page indicates that the items have been transferred or posted. If the ledger folio does not appear in the journal, it is assumed that the item is not posted. However, the item might be posted, but one would have little idea of the exact page on which it is recorded. It is very important, therefore, to insert the page number *immediately* upon posting the item. Furthermore, if an incorrect page number is inserted, it may prove to be a costly error.

Thus, if 11 appeared in the folio column under the *B. L. Bemis* account, and occasion arose to refer to the journal entry, one would

naturally turn to page 11 of the journal. Not finding such a transaction recorded on page 11, he would have to locate the page on which the journal entry was made. Likewise if the journal showed that the *B. L. Bemis* entry had been posted to page 45 of the ledger instead of to page 35, time and labor would be spent in trying to locate the ledger page on which Mr. Bemis's account appeared. It is seen, therefore, that failure either to put in a page number or the correct page number may result in confusion and a consequent loss of time and labor.

Books of Original Entry and of Final Entry. Up to this time two types of books have been considered: the journal and the ledger. The journal is a book of *original entry* — one in which the debits and credits of transactions are recorded as they occur in the routine of business. The ledger is a book of *final entry* — one in which related debits and credits are grouped together by the process of posting the original entries from the journal.

Exercise 15. Study

TRACING POSTINGS FROM MODEL JOURNAL TO MODEL LEDGER

From the journal, pages 12–14, trace the postings to the ledger, following the procedure explained on page 23.

Exercise 16. Written

POSTING

Open the ledger accounts used in model ledger, pages 24 and 25, on ledger paper or a sheet ruled in ledger form. Allow eight lines for each account. Post the journal written by you in Exercise 11, page 17, to these ledger accounts without reference to the model in the text.

Exercise 17. Written

POSTING

On sheets of ledger paper, open accounts with the following, allowing eight lines for each account excepting *Cash*, for which account allow twelve lines: *Cash, B. R. Blaine, B. L. Kane, William K. Reed, Furniture and Furnishings, William Farr, A. K. Holmes, F. L. Mathews, Proprietor, Merchandise Sales, Merchandise Purchases, Rent Expense, Salaries.*

Post the journal entries made for Exercise 12, page 18.

After this exercise has been corrected and approved by your instructor, keep the work for use in a subsequent exercise.

Exercise 18. Written**POSTING**

On sheets of ledger paper, open accounts with the following, allowing eight lines for each account excepting *Cash*, for which account allow twelve lines: *Cash, R. K. Blake, T. M. Hunter, H. A. Sweet, Furniture and Furnishings, Beck & Co., Frank Bell & Son, John K. Martin, Proprietor, Merchandise Sales, Merchandise Purchases, Rent Expense, Salaries.*

Post the journal entries made for Exercise 13, page 19.

After this exercise has been corrected and approved by your instructor, keep the work for use in a subsequent exercise.

Exercise 19. Written**JOURNALIZING AND POSTING**

Journalize, on a sheet of journal paper, the following transactions taken from the men's clothing and furnishings business of Samuel K. Price:

July 1, 19—. Samuel K. Price began the men's clothing and furnishings business at 78 Plain St., your city, investing cash, \$2500.

2. Paid F. S. Kellogg cash, for rent of store for July, \$60.

3. Bought of L. K. Meyer & Co., City, at 10 da., merchandise, \$1400.

5. Bought of Jackson & Co., City, for cash, showcases, cabinets, etc., \$200.

6. Paid J. M. Johnson cash, for services, \$20.

8. Paid L. K. Meyer & Co. cash, to apply on account, \$1000.

9. Sold T. N. Schott, City, at 10 da., merchandise, \$300.

10. Sold C. H. Felber, City, for cash, merchandise, \$180.

11. Bought of B. R. Marsh & Co., City, at 15 da., merchandise, \$800.

12. Paid L. K. Meyer & Co. cash, in full of account, \$400.

13. Paid J. M. Johnson cash, for services, \$20.

15. Sold C. J. Adams, City, at 10 da., merchandise, \$350.

16. Sold D. S. Burch, City, for cash, merchandise, \$150.

19. Received of T. N. Schott cash, in full of account, \$300.

20. Paid J. M. Johnson cash, for services, \$20.

25. Received of C. J. Adams cash, in full of account, \$350.

26. Paid B. R. Marsh & Co. cash, in full of account, \$800.

27. Paid J. M. Johnson cash, for services, \$20.

29. Sold L. A. Young, City, at 10 da., merchandise, \$750.

30. Bought of L. K. Meyer & Co., City, at 10 da., merchandise, \$350.

31. Paid Mr. Price cash, for salary for July, \$125.

On sheets of ledger paper, open accounts with the following, allowing eight lines for each account excepting *Cash*, for which account allow twelve lines: *Cash*, *C. J. Adams*, *T. N. Schott*, *L. A. Young*, *Furniture and Furnishings*, *B. R. Marsh & Co.*, *L. K. Meyer & Co.*, *Samuel K. Price*, *Proprietor*, *Merchandise Sales*, *Merchandise Purchases*, *Rent Expense*, *Salaries*.

Post the above transactions to the ledger.

After this exercise has been corrected and approved by your instructor, keep the work for use in a subsequent exercise.

Exercise 20. Oral

TOPICS FOR CLASS DISCUSSION

1. State the purpose of the ledger.
2. Describe the ledger page.
3. Define *posting*.
4. Outline the posting process step by step.
5. Why is it necessary to record in the ledger the number of the journal page on which the original entry appears?
6. What is the purpose of the folio column in the journal?
7. What is an *account*? State the names given to the two sides of an account.
8. Name six accounts which have been used in each of the exercises up to this point.
9. What is meant by the expression "*Cash* account is debited"? What is meant by the expression "*Merchandise Sales* account is credited"?
10. What is a book of original entry? *Journal*
11. What is a book of final entry? *Ledger*.

CHAPTER IV

TRIAL BALANCE

Trial Balance. In each journal entry there is a debit and a credit of the same amount. In posting, the debit amount of an entry in the journal is transferred to the debit of an account in the ledger, and the credit amount is transferred to the credit of an account in the ledger. Since this same procedure is followed in posting each journal entry, and since the debit and the credit for each entry are the same amount, it follows that the total of all the debits as recorded in the ledger accounts should equal the total of all the credits thus recorded. To prove that there is this equality of debits and credits in the ledger, a list is made of the names and the totals or balances of the open ledger accounts. Such a list is called a *trial balance*.

Trial Balance of Totals. The trial balance may be prepared by taking the total debits and the total credits of each open account. Such a trial balance is called a *trial balance of totals*. A trial balance of totals taken from the ledger on pages 24 and 25 would appear as follows:

A. M. Bond
Trial Balance
January 31, 19-

24	Cash	2930—	2456—
24	A. B. Blue	575—	
24	Furniture and Furnishings	100—	
24	B. L. Bemis	600—	725—
24	A. M. Bond, Proprietor		2000—
25	Merchandise Sales		1505—
25	Merchandise Purchases	2385—	
25	Rent Expense	60—	
25	Salary	36—	
		6686—	6686—

A TRIAL BALANCE OF TOTALS

The accounts with *R. A. King* and *S. L. Martin* are omitted in the trial balance because these accounts balance. An account *balances*

when the total of the debit side equals the total of the credit side. An account that does not balance is called an *open* account.

Trial Balance of Balances. Another method of preparing the trial balance, and the one more commonly used, is to take the balance of each open account rather than the total of the debits and of the credits. In this connection the word *balance* means the difference between the debits and the credits in the same account. For example, in the above trial balance of totals, instead of showing the total debits to *Cash* of \$2930 and the total credits to *Cash* of \$2456, the difference between the total debits and the total credits is used. Such a trial balance is called a *trial balance of balances*.

A trial balance of balances, taken from the ledger on pages 24 and 25, would appear as follows:

*A. M. Bond
Trial Balance
January 31, 19--*

24	<i>Cash</i>	474—	
24	<i>A. B. Blue</i>	575—	
24	<i>Furniture and Furnishings</i>	100—	
24	<i>B. L. Bemis</i>		125—
24	<i>A. M. Bond Proprietor</i>		2000—
25	<i>Merchandise Sales</i>		1505—
25	<i>Merchandise Purchases</i>	2385—	
25	<i>Rent Expense</i>	60—	
25	<i>Salary</i>	36—	
		3630—	3630—

A TRIAL BALANCE OF BALANCES

In each account where there are both debits and credits, the subtraction of the smaller side from the larger and the use of this difference in the trial balance does not throw the trial balance out of balance because it simply decreases the total footings of both sides of the trial balance. *If equals are subtracted from equals, the results are equal.*

In this text, wherever the term *trial balance* appears, the trial balance of balances is to be used.

A trial balance proves primarily that for every debit posting an equal credit posting has been made. The trial balance therefore is a very valuable means of checking the work of the bookkeeper.

Footings Accounts. In preparing a trial balance the totals of the debits and credits of each account are found and are placed in small lead-pencil figures just below the last item on each side of the account in the ledger. A hard, sharp pencil should be used for writing these totals so that they will not mar the appearance of the books. See the footings in the *Cash* account of the model ledger on page 24. If a trial balance is obtained, the ledger accounts should be footed and ruled in ink.

Ruling Accounts which Balance. The illustrations below show how to rule accounts which balance. Study these models carefully.

W. A. Hall					Omaha, Neb.				
¹⁹⁻ Oct	10	J	3	550 -	¹⁹⁻ Oct	19	J	5	550 -
R. W. Case					Denver, Colo.				
¹⁹⁻ Oct	1	J	1	1000 -	¹⁹⁻ Oct	10	J	3	1000 -
	4	J	3	600 -		15	J	4	600 -
	5	J	3	180 -		20	J	5	180 -
				1780 -					1780 -
				1780 -					1780 -
A. B. Snow					St. Louis, Mo.				
¹⁹⁻ Oct.	1	J	1	600 -	¹⁹⁻ Oct.	6	J	3	900 -
	2	J	1	350 -		15	J	5	400 -
	9	J	3	200 -		20	J	7	710 -
	12	J	4	160 -					
	16	J	5	700 -					
				2010 -					2010 -
				2010 -					2010 -

THE RULING OF BALANCED ACCOUNTS

A single line across an amount column indicates addition. A double-line ruling in an account implies that the account is in balance. A double-line ruling should cross all columns except the explanation column.

The first line of a double-line ruling should be on the blue horizontal line of the paper. In ruling double lines do not change the position of the ruler. Hold the ruler firmly, then rule the first line; incline the pen and rule the second line.

Exercise 21. Written**TRIAL BALANCE**

Prepare a trial balance from the ledger accounts used in Exercise 17, page 26. Use a sheet of journal paper.

Rule all accounts that balance.

Exercise 22. Written**TRIAL BALANCE**

Prepare a trial balance from the ledger accounts used in Exercise 18, page 27. Use a sheet of journal paper.

Rule all accounts that balance.

Exercise 23. Written**TRIAL BALANCE**

Prepare a trial balance from the ledger accounts used in Exercise 19, page 27. Use a sheet of journal paper.

Rule all accounts that balance.

Exercise 24. Oral**TOPICS FOR CLASS DISCUSSION**

1. Define a *trial balance*.
2. What is a *trial balance of totals*?
3. What is a *trial balance of balances*?
4. Explain why a trial balance of balances is just as conclusive as a trial balance of totals.
5. When does an account balance?
6. Why are the totals of accounts which balance omitted from the trial balance?
7. What does a single-line ruling in an account imply? a double-line ruling?
8. How is an account which balances ruled when there is
 - (a) one debit and one credit?
 - (b) an unequal number of debits and credits?

CHAPTER V

THE PROFIT AND LOSS STATEMENT AND THE BALANCE SHEET

The Business Statements. It is customary in business to determine both the result of operating the business for a certain period and the financial condition at the end of that period.

The life of a business is divided into periods which are called fiscal or accounting periods. The length of these periods varies from one month to a year. If the length of the period is twelve months, it is called the *fiscal year* of the business. A fiscal year is any period of twelve months regardless of the day on which it ends. The calendar year from January 1 to December 31, or any other twelve months' period, may be a fiscal year.

The accounts of A. M. Bond, as shown by the following trial balance, are used to illustrate how the result of operating a business may be found and the financial condition determined:

*A. M. Bond
Trial Balance
January 31, 19-*

24 Cash	474 -	
24 A. B. Blue	575 -	
24 Furniture and Furnishings	100 -	
24 B. L. Bemis		125 -
24 A. M. Bond, Proprietor		2000 -
25 Merchandise Sales		1505 -
25 Merchandise Purchases	2385 -	
25 Rent Expense	60 -	
25 Salary	36 -	
	3630 -	3630 -
	3630 -	3630 -

THE TRIAL BALANCE OF A. M. BOND

Merchandise Inventory. The *Merchandise Purchases* account in the above trial balance shows that the purchases for the period amounted to \$2385 and the *Merchandise Sales* account shows that the sales for

the period amounted to \$1505. Not all the merchandise purchased was sold, and the merchandise which was sold was at a price different from the purchase price; consequently, the difference between the amount of the purchases and the amount of the sales does not represent the value of the merchandise on hand.

The value of the merchandise unsold at the end of a period is called the *merchandise inventory* and is found by preparing an itemized statement of the quantity and the value of the goods on hand. The taking of the inventory is often called *taking stock*.

Assume that Mr. Bond finds the merchandise on hand on Jan. 31, 19—, to be worth \$1150.

THE OPERATING CONDITION

Gross Profit. Since the merchandise purchased during the period cost \$2385, and since the goods on hand are valued at \$1150, then the merchandise sold must have cost the difference between the cost price of all merchandise purchased, \$2385, and the cost price of the merchandise on hand, \$1150, or \$1235.

If the cost of the merchandise sold is \$1235 and it is sold for \$1505, then the sales price is \$270 in excess of the cost price. This excess of the sales price of merchandise over the cost price is called the *gross profit*, and therefore Mr. Bond's gross profit for the month was \$270.

Operating Expenses. During the month disbursements were made for operating the business, as shown by the *Rent Expense* and *Salary* accounts of \$60 and \$36, respectively. Since these were consumed in the operation of the store during the month of January, they are of no value to the business after Jan. 31. Values which are consumed by a business soon after they are received are called *operating expenses*. The sum of the amounts paid by Mr. Bond for rent and for salary, \$96, is therefore the total of the operating expenses for the month.

Net Profit. The gross profit, \$270, minus the total operating expenses, \$96, gives the net result, a net profit of \$174 for operating the store for the period.

Net profit is the excess of gross profit over the total operating expenses.

Although a merchant generally plans to sell merchandise so that he will receive a net profit from the sale, losses are sometimes incurred. If the selling price of merchandise is less than its cost, the difference is the gross loss. The net loss is the sum of the gross loss and the operating expenses. Frequently the merchandise is sold for more than its cost price, so that a gross profit is made; but the operating expenses are greater than this gross profit, so that the year's operations still show a net loss. In this case the net loss is the result of subtracting the gross profit from the operating expenses.

Profit and Loss Statement. Facts relative to profits realized and losses sustained are usually summarized in a statement called the *profit and loss statement*, or *operating statement*, a form of which follows:

A. M. Bond
Profit and Loss Statement
for the month of January, 19—

Merchandise Sales	1505—	
Merchandise Purchases 2385—		
Merchandise Inventory		
Jan. 31	1150—	
Cost of Merchandise sold	1235—	
Gross Profit on Sales		270—
Operating Expenses		
Rent Expense	60—	
Salary	36—	96—
Net Profit for January		174—

THE PROFIT AND LOSS STATEMENT OF A. M. BOND

NOTE. The above statement not only shows a net profit of \$174, but also the sources from which this net profit was obtained — a gross profit of \$270 on merchandise sales and operating expenses of \$96. The operating expenses consisted of two items: Rent Expense, \$60, and Salary, \$36.

Exercise 25. Written

PROFIT AND LOSS STATEMENTS

Using sheets of journal paper, prepare profit and loss statements in accordance with the above form for each of the following:

1. During the month of February, 19—, Wm. K. Laird bought merchandise for \$2070, sold merchandise for \$1480, paid cash for rent, \$60, and for salaries, \$100. The inventory of merchandise at the end of the month amounts to \$900.

2. During the month of March, 19—, D. K. Daniels bought merchandise for \$1901.70, sold merchandise for \$1451.50, paid cash for rent, \$75, and for salaries, \$100. The inventory of merchandise at the end of the month amounts to \$740.50.

3. During the month of May, 19—, A. L. Dolan bought merchandise for \$2538.90, sold merchandise for \$1894.50, paid cash for rent, \$65,

and for salaries, \$120. The inventory of merchandise at the end of the month amounts to \$1020.85.

4. During the month of June, 19—, Louis R. Smith bought merchandise for \$5320.80, sold merchandise for \$4600.20, paid cash for rent, \$40, and for salaries, \$160. The inventory of merchandise at the end of the month amounts to \$848.50.

THE FINANCIAL CONDITION

The financial condition of a business is found by determining the *values owned* by the business and the *values owed* by the business at a definite time.

Assets. Values owned by the business are property of value belonging to the business and amounts owed the business and are called *assets*. The values owned by the business of A. M. Bond on Jan. 31 are:

Cash	\$474
A debt of A. B. Blue	575
Merchandise Inventory	1150
Furniture and Furnishings	<u>100</u>
Total Assets	\$2299

Liabilities. Values owed or debts of the business are called *liabilities*. The only value owed by the business on Jan. 31 is a debt to B. L. Bemis, amounting to \$125.

Proprietary Interest. If the assets exceed the liabilities, the business is said to be solvent; that is, the values owned by the business are sufficient to pay what it owes. The excess of assets over liabilities is called the present worth, or *proprietary interest*. It is the net worth of a business at a definite time. Deducting the liability of \$125 from the total assets of \$2299 gives an excess of assets over liabilities of \$2174. This excess of assets over liabilities is the proprietary interest, or present worth, of A. M. Bond on Jan. 31.

If the liabilities exceed the assets, the business is said to be insolvent; that is, the values owned are insufficient to pay what it owes. The excess of liabilities over assets is called *net insolvency*.

The Balance Sheet. The formal statement of assets, liabilities, and proprietary interest is called a statement of assets and liabilities, a balance sheet, or a financial statement. The usual name given to it is the balance sheet. Two forms of balance sheet are frequently used — the *report form* and the *account form*.

The following balance sheet of A. M. Bond on Jan. 31 illustrates the arrangement of the various items of assets, liabilities, and proprietary interest in the report form of a balance sheet.

A. M. Bond
Balance Sheet
January 31, 19—

Assets

<i>Cash</i>	<i>474—</i>
<i>A. B. Blue</i>	<i>575—</i>
<i>Merchandise Inventory</i>	<i>1150—</i>
<i>Furniture and Furnishings</i>	<i>100—</i>

Total Assets

2299—

Liabilities

B. L. Bemis

125—

Proprietary Interest

A. M. Bond, Investment, Jan. 2 *2000—*

Net Profit for January *174—*

Proprietary Interest, Jan. 31

2174—

THE REPORT FORM OF BALANCE SHEET

In this form of a balance sheet the proprietary interest at the end of the month, \$2174, is obtained by subtracting the total liabilities from the total assets. This proprietary interest of \$2174 at the end of the month consists of two items, the original investment of \$2000 plus the net profit of \$174 for January as shown by the profit and loss statement.

From the profit and loss statement on page 35 one may see just what caused the increase in Mr. Bond's proprietary interest, and from the above balance sheet one may see the details of the assets owned and of the liabilities owed after this increase has taken place:

The following arrangement of items illustrates the account form of balance sheet :

A. M. Bond
Balance Sheet
January 31, 19—

<i>Assets</i>		<i>Liabilities</i>	
<i>Cash</i>	<i>474—</i>	<i>B. L. Bemis</i>	<i>125—</i>
<i>A. B. Blue</i>	<i>575—</i>	<i>Proprietary</i>	
<i>Merchandise Inventory</i>	<i>1150—</i>	<i>Interest</i>	
<i>Furniture and</i>		<i>A. M. Bond,</i>	
<i>Furnishings</i>	<i>100—</i>	<i>Investment 2000</i>	
		<i>A. M. Bond,</i>	
		<i>Net Profit 174</i>	
	<i>2299—</i>		<i>2174—</i>
			<i>2299—</i>

THE ACCOUNT FORM OF BALANCE SHEET

In this form of balance sheet the total assets are equal to the sum of the liabilities and proprietary interest.

NOTE. The form of balance sheet to be used is left to the discretion of the instructor.

It should be noted that the net profit for the period, as shown by the profit and loss statement on page 35, when added to the proprietary interest at the beginning of the period, gives the proprietary interest at the end of the period as shown by the balance sheet.

Furniture and Furnishings represents an asset purchased for use in the business. Until further notice, the cost price, which is the amount stated in trial balances for this asset, should be considered as the inventory value, and the asset should appear in the balance sheet at this amount.

Exercise 26. Written

BALANCE SHEETS

From the following figures prepare balance sheets in accordance with the models given on pages 37 and 38. Use journal paper for the report form and ledger paper for the account form.

1. At the end of February, 19—, Wm. K. Laird has *Cash*, \$640; debts of A. L. Doe, \$300, and of A. R. Smith, \$260; *Merchandise Inventory*, \$900; and *Furniture and Furnishings*, \$420. Laird owes D. K. Lord, \$370. Laird's investment at the beginning of February was \$2000, and he made a net profit of \$150 during the month.

2. At the end of March, 19—, D. K. Daniels has *Cash*, \$654.80; debt of B. D. Noel, \$210; *Merchandise Inventory*, \$740.50; and *Furniture and Furnishings*, \$300. Daniels owes A. M. Mason \$210 and L. A. Moon \$80. Daniels's investment at the beginning of March was \$1500, and he has made a net profit of \$115.30 during the month.

3. At the end of May, 19—, A. L. Dolan has *Cash*, \$380.60; debts of A. K. Cox, \$350, and of L. A. Stone, \$450; *Merchandise Inventory*, \$1020.85; and *Furniture and Furnishings*, \$200. Dolan owes A. L. Swarty \$410. Dolan's investment at the beginning of May was \$1800, and he has made a net profit of \$191.45 during the month.

4. At the end of June, 19—, Louis R. Smith has *Cash*, \$654.40; a debt of D. L. Borne, \$400; *Merchandise Inventory*, \$848.50; and *Furniture and Furnishings*, \$300. Smith owes D. B. Fox \$275. Smith's investment at the beginning of June was \$2000, and during the month he had a net loss of \$72.10.

A Study of the Balance Sheet and Profit and Loss Statement. On beginning business, A. M. Bond invested cash, \$2000. This was the only asset owned and there were no debts due other people. The proprietary interest at that time was \$2000, or, as expressed in the form of an equation:

$$\begin{array}{l} \text{Assets} = \text{Proprietary Interest} \\ \text{Cash, \$2000} = \text{Investment, \$2000} \end{array}$$

At the end of the month, due to the exchange of values in the various business transactions, the assets are *Cash*, \$474; a debt of A. B. Blue, \$575; *Merchandise Inventory*, \$1150; and *Furniture and Furnishings*, \$100. These assets total \$2299.

There is a debt to B. L. Bemis amounting to \$125.

The proprietary interest of A. M. Bond, \$2174, is the difference between the total of the assets, \$2299, and the liability of \$125. This may be expressed by a second equation:

$$\begin{array}{rcl} \text{Assets} - \text{Liabilities} & = & \text{Proprietary Interest} \\ \$2299 - \$125 & = & \$2174 \end{array}$$

This equation is called the *balance-sheet equation*. The report form of a balance sheet, page 37, clearly shows this relationship between the three elements of a balance-sheet equation.

Expressed as an equation, the relationship between the three basic groups of accounts shown in the account form of a balance sheet, page 38, would appear as follows:

$$\begin{array}{rcl} \text{Assets} & = & \text{Liabilities} + \text{Proprietary Interest} \\ \$2299 & = & \$125 + \$2174 \end{array}$$

The initial letters of each of the elements may be used in studying these balance-sheet equations, in which case the first equation would become $A - L = P I$, and the second, $A = L + P I$.

During the month of January, the proprietary interest of A. M. Bond increased from \$2000 to \$2174. This increase of \$174 agrees with the net profit as shown by the profit and loss statement on page 35.

This net profit may be expressed in terms of the following equation :

$$\begin{array}{rcl} \text{Proprietary Interest at end of January} & \left\} - \left\{ \begin{array}{l} \text{Proprietary Interest at} \\ \text{beginning of January} \end{array} \right. & = \text{Net Profit} \\ \$2174 & - & \$2000 = \$174 \end{array}$$

or, as it appears in the balance sheets on pages 37 and 38,

$$\begin{array}{rcl} \text{Proprietary Interest at beginning of January} & \left\} + \left\{ \begin{array}{l} \text{Net Profit} \\ \text{for period} \end{array} \right. & = \left\{ \begin{array}{l} \text{Proprietary Interest} \\ \text{at end of January} \end{array} \right. \\ \$2000 & + & \$174 = \$2174 \end{array}$$

The net profit, that is, the increase in the proprietary interest, is explained by the excess of the gross profit over the operating expenses for January. The profit and loss statement shows that the total sales were \$1505, the cost of goods sold was \$1235, the gross profit was \$270. It also shows that during the month \$36 was paid for salaries and \$60 for rent, so that the total operating expenses amounted to \$96. The excess of the gross profit, \$270, over the total operating expenses, \$96, gives the net profit of \$174. This may be expressed by the equation

$$\begin{array}{rcl} \text{Gross Profit} - \text{Operating Expenses} & = & \text{Net Profit} \\ \$270 & - & \$96 = \$174 \end{array}$$

This last equation explains the increase of proprietary interest during the month of January.

If the total of the operating expenses exceeds the gross profit, a net loss results. For example, if the total of the operating expenses were \$1860 and the gross profit on sales were \$1420, the net loss would be \$440. This may be expressed by the following equation :

$$\begin{array}{rcl} \text{Operating Expenses} - \text{Gross Profit} & = & \text{Net Loss} \\ \$1860 & - & \$1420 = \$440 \end{array}$$

A net loss decreases the proprietary interest; thus, if the proprietary interest at the beginning were \$2000 and a loss of \$440 were sustained during the period, the proprietary interest at the end of the period would be \$1560. This may be expressed by the equation

$$\begin{array}{rcl} \text{Proprietary Interest at beginning of period} & \left\} - \left\{ \begin{array}{l} \text{Net Loss} \\ \text{for period} \end{array} \right. & = \left\{ \begin{array}{l} \text{Proprietary Interest} \\ \text{at end of period} \end{array} \right. \\ \$2000 & - & \$440 = \$1560 \end{array}$$

When the cost of merchandise sold exceeds the selling price, a gross loss occurs; and when the operating expenses are added to this amount, the net loss for the period is obtained. This may be expressed by the equation

$$\text{Gross Loss} + \text{Operating Expenses} = \text{Net Loss}$$

Exercise 27. Written

PROPRIETARY INTEREST AND CHANGES IN PROPRIETARY INTEREST

1. Copy these problems on a sheet of paper in the following form and fill in the blank spaces.

PURCHASES	INVENTORY	COST OF GOODS SOLD	SALES	GROSS PROFIT
a. \$1175	\$400 2500	400	\$860 11,000	\$200
b. 1400	350	—	1270	—
c. 1475	400	—	1325	—
d. 1960	660	—	1600	—
e. 3580	870	—	3434	—

2. Copy these problems on a sheet of paper in the following form and fill in the blank spaces. Keep in mind the equations

$$\text{Gross Profit} - \text{Operating Expenses} = \text{Net Profit}$$

$$\text{Operating Expenses} - \text{Gross Profit} = \text{Net Loss}$$

GROSS PROFIT	OPERATING EXPENSES	NET PROFIT OR NET LOSS	GROSS PROFIT	OPERATING EXPENSES	NET PROFIT OR NET LOSS
a. \$110	\$65	—	f. \$636	\$760	—
b. 300	200	—	g. 396	278	—
c. 140	160	—	h. 1079	796	—
d. 865	600	—	i. 118	67	—
e. 1178	847	—	j. 153	224	—

3. Copy these problems on a sheet of paper in the following form and fill in the blank spaces. Keep in mind the equation

$$\text{Assets} - \text{Liabilities} = \text{Proprietary Interest}$$

ASSETS	LIABILITIES	PROPRIETARY INTEREST	ASSETS	LIABILITIES	PROPRIETARY INTEREST
a. \$1600	\$240	—	f. \$3930	\$3010	—
b. 2837	221	—	g. 2647	480	—
c. 2985	897	—	h. 1491	462	—
d. 1670	766	—	i. 3350	975	—
e. 4575	1142	—	j. 4352	1231	—

4. Copy these problems on a sheet of paper in the following form and fill in the blank spaces. Keep in mind the equations

$$\text{Assets} - \text{Liabilities} = \text{Proprietary Interest.}$$

$$\text{Gross Profit} - \text{Operating Expenses} = \text{Net Profit.}$$

$$\text{Operating Expenses} - \text{Gross Profit} = \text{Net Loss.}$$

Proprietary Interest at beginning of period + Net Profit = Proprietary Interest at end of period.

Proprietary Interest at beginning of period - Net Loss = Proprietary Interest at end of period.

ASSETS	LIABILITIES	PROPRIETARY INTEREST		GROSS PROFIT	OPERATING EXPENSES	NET PROFIT
		End of Period	Beginning of Period			
a. \$5000	\$2000	—	\$2000	\$1800	\$800	—
b. —	500	\$3100	—	—	600	\$800
c. 4000	—	3000	2500	800	—	—
d. 3000	—	2000	2400	500	—	400 ¹
e. —	4000	4000	—	900	1900	—

5. The total of the assets of a business on Dec. 31, 19—, is \$12,600. The total of the liabilities is \$5200. What is the proprietary interest on this date? The net profit for the period ended on this same date is \$400. What was the amount of the proprietor's investment account at the beginning of the period, according to the books?

6. A. L. Mason's proprietary interest on a certain date is \$4800. He owes \$200 to John Frazier and \$400 to William Smith. What is the total of his assets?

7. K. L. Kent's proprietary interest is \$9600; his assets are \$10,900; his only debt is one owed William K. Riley. How much does he owe William K. Riley?

8. M. A. Rogers's proprietary interest on Jan. 1, 19—, was \$4800. He bought merchandise amounting to \$14,000; he had merchandise unsold at the end of the year amounting to \$3500; his sales for the year were \$13,000; he paid salaries, \$800, and rent, \$400. What was his net profit for the year? What was the proprietary interest at the end of the year? If his liabilities at the end of the year were \$360, what must his assets have been?

9. The gross profit for a year is \$1400; the merchandise inventory at the close of a year is \$2600; and the merchandise purchases for a year are \$9700. What are the merchandise sales for a year?

10. The net profit for the year in the business of W. H. Hill is \$2300. During the year he paid salaries, \$1400; rent, \$900. What is the gross profit?

11. If the sales of H. L. Gray for the year were \$11,000, the inventory at the end of the year were \$2500, and the gross profit for the year were \$2000, what would be the purchases for the year?

¹ Net Loss.

Working Sheet. The working sheet, or six-column statement, illustrated below, may be used for obtaining quickly all data necessary for making a correct profit and loss statement and an accurate balance sheet. As the name implies, it is a working sheet, and should not be used as a finished statement to present to the proprietor or creditor. The working sheet is frequently used because of the fact that the person making the statements wants to be certain of the accuracy of the figures which will appear in the statements; and since all the accounts in use are grouped on this working sheet, it is a comparatively easy matter to make such corrections as may be necessary before making the statements themselves.

A. M. BOND

Working Sheet, Jan. 31, 19—

	TRIAL BALANCE				EXPENSE	INCOME	BALANCE SHEET			
	Dr.	Cr.					Assets		Liab. and Prop. Int.	
Cash	474	—					474	—		
A. B. Blue	575	—					575	—		
Furn. and Furn.	100	—					100	—		
B. L. Bemis		125	—						125	—
A. M. Bond, Prop.		2000	—						2000	—
Mdse. Sales		1505				1505				
Mdse. Purchases	2385	—		2385	—					
Rent Expense	60	—		60	—					
Salary	36	—		36	—					
	3630	—	3630	—	2481					
Mdse. Inventory					174	—	1150	—		174
Net Profit					2655	—	2299	—		2299

The first two columns of the working sheet illustrated contain the trial-balance debits and credits respectively, the third and fourth columns are used to record the amounts necessary to determine the net profit or loss of the period, the fifth column contains the assets, and the last column contains the liabilities and proprietary interest of the business.

The first step in the preparation of a working sheet is to copy the trial balance on the sheet, entering each debit in the Debit column of the Trial-Balance section and each credit in the Credit column.

The second step is to extend into the third and fourth columns the trial-balance amounts which are used in determining the net profit or net loss of the period.

The credit to *Merchandise Sales* represents the sales for the month and is extended into the Income column. The debit to *Merchandise Purchases* represents the purchases of the month and is extended into the Expense column. In order to obtain the cost of goods sold, the closing inventory should be subtracted from the purchases; but since the usual method of subtraction is not possible in the columns of a working sheet, the amount of the closing inventory is entered both in the Income column and in the Assets column. The words *Merchandise Inventory* are written directly under the names of the accounts appearing in the trial balance and the amount extended on the same line in both the fourth and fifth columns.

In the profit and loss statement, page 35, the cost of sales was \$2385 - \$1150, or \$1235. The gross profit of \$270 was then obtained by subtracting the cost of sales, \$1235, from the sales price of the merchandise, \$1505. In the working sheet this same effect is obtained by extending the total purchases into the Expense column, the total sales into the Income column and entering the closing inventory in the Income and Assets columns; for [\$1505 (sales) + \$1150 (closing inventory)] - \$2385 (purchases) gives exactly the same result as \$1505 (sales) - [\$2385 (purchases) - \$1150 (closing inventory)].

The amounts of the two expense accounts are extended into the Expense column.

The difference between the totals of the Expense and Income columns will then give the net profit for the period. In the illustration the third column totals \$2481, the fourth, \$2655, so that the net profit, the excess of income over expenses, is \$174. The words *Net Profit* are written at the left of the sheet, and the amount, \$174, is entered in the Expense column and in the last column. The Expense and Income columns are then footed and ruled. The net profit of \$174 is entered in the last column, since it is a proprietary-interest item.

The third step is to extend each asset amount in the trial balance into the Assets column, and the liability and proprietary-interest amounts in the trial balance into the Liabilities and Proprietary Interest column. The closing merchandise inventory was entered in the Assets column, and the net profit in the last column, so that if the work is correct, the total of the fifth, the Assets, column should equal the total of the sixth, the Liabilities and Proprietary Interest, column. In this illustration the totals are found to be the same amount, \$2299. These columns should then be footed and ruled.

The working sheet well illustrates the relationship between the trial balance and the profit and loss statement and the balance sheet, since all the amounts appearing in the trial balance are distributed in one or more of the columns. The closing inventory, although not given in the trial balance, must always be considered in compiling a correct working sheet as well as in making accurate statements.

Exercise 28. Written

WORKING SHEETS

Rule sheets of paper following the model working sheet shown on page 43 and prepare working sheets for each of the following trial balances:

1

H. A. Glynn

TRIAL BALANCE

May 31, 19—

Cash	\$763	
J. Thomas	400	
A. Wells	520	
Furniture and Furnishings	265	
B. A. Brown		\$526
H. A. Glynn, Proprietor		2500
Merchandise Sales		1800
Merchandise Purchases	2643	
Rent Expense	60	
Salaries	175	
	<u>\$4826</u>	<u>\$4826</u>
Merchandise Inventory, May 31		\$1200

2

W. A. Bell

TRIAL BALANCE

June 30, 19—

Cash	\$890	
A. M. Rhodes	670	
D. L. Duff	350	
B. L. Knapp	305	
A. S. Snow		\$300
T. R. Rowe		275
W. A. Bell, Proprietor		3000
Merchandise Sales		2175
Merchandise Purchases	3260	
Rent Expense	75	
Salaries	200	
	<u>\$5750</u>	<u>\$5750</u>
Merchandise Inventory, June 30		\$1520

Exercise 29. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following:

- | | |
|-------------------------|--------------------------|
| a. Fiscal year | f. Merchandise inventory |
| b. Assets | g. Gross profit |
| c. Liabilities | h. Operating expenses |
| d. Proprietary interest | i. Net profit |
| e. Net insolvency | j. Net loss |

2. Describe the profit and loss statement as to purpose, nature of accounts it contains, arrangement of items, etc.

3. What is the purpose of the balance sheet?

4. Name the three basic groups of accounts shown in the balance sheet.

5. Describe the arrangement

(a) of the report form of a balance sheet;

(b) of the account form of a balance sheet.

6. State, in the form of the balance-sheet equation, the proprietary interest of Wm. Smith

140-440=1750 (a) when his assets total \$2140 and his liabilities total \$440;

40-440=1750 (b) when his assets increase \$500 over the amount stated in (a);

1640=1750 (c) when his liabilities increase \$200 over the amount stated in (a).

7. State, in the form of the balance-sheet equation, the proprietary interest of J. Moore

1300 (a) when his assets total \$1750 and his liabilities total \$550;

1600 (b) when his assets increase \$400 over the amount stated in (a);

900 (c) when his liabilities increase \$300 over the amount stated in (a);

1090 (d) when his assets decrease \$250 and his liabilities decrease \$140 over the amount stated in (a).

8. State, in the form of equations,

(a) the net profit of A. R. Baird, whose gross profit for a year was \$2175 and whose operating expenses were \$1575;

(b) the proprietary interest of A. R. Baird at the end of the period if his present worth at the beginning of the period was \$2000.

9. State, in the form of equations,

(a) the net profit or loss of C. E. Piper, whose gross profit for a year was \$1230 and whose operating expenses were \$1440;

(b) the proprietary interest of C. E. Piper at the end of the period if his present worth at the beginning of the period was \$3000.

10. a. What is the purpose of a working sheet?

b. Without referring to the explanation and discussion, turn to the model working sheet on page 43 and explain how it is compiled.

Exercise 30. Written

REVIEW

Prepare the profit and loss statement and the balance sheet from each of the following trial balances. Date each statement June 30, 19—. Use sheets of journal paper. The student should make working sheets for each of these problems before preparing the statements.

1	
Cash	\$605
H. Grau	424
Young & Co.	582
Hall & Co.	\$140
James & Co.	100
Student, Proprietor	2000
Merchandise Sales	1873
Merchandise Purch.	2377
Rent Expense	25
Salary	100
	<u>\$4113</u> <u>\$4113</u>

Merchandise Inventory \$752

3	
Cash	\$722
A. B. Lee	380
Dorr & Co.	585
R. A. Chase	\$377
N. S. Tanner	105
Student, Proprietor	2200
Merchandise Sales	1975
Merchandise Purch.	2760
Rent Expense	85
Salary	125
	<u>\$4657</u> <u>\$4657</u>

Merchandise Inventory \$1058

2	
Cash	\$710
H. Range	211
F. Williams	113
Mann & Co.	277
F. D. Hall	\$240
Student, Proprietor	2500
Merchandise Sales	1885
Merchandise Purch.	3189
Rent Expense	25
Salary	100
	<u>\$4625</u> <u>\$4625</u>

Merchandise Inventory \$1286

4	
Cash	\$575
A. Rollins	335
Lloyd & Co.	476
F. D. Francis	932
A. D. Wall	\$365
Student, Proprietor	2300
Merchandise Sales	2193
Merchandise Purch.	2365
Rent Expense	75
Salary	100
	<u>\$4858</u> <u>\$4858</u>

Merchandise Inventory \$564

CHAPTER VI

CLOSING THE LEDGER

The profit and loss statement shows the net profit or net loss for a given period ; that is, the net increase or the net decrease in proprietary interest. On the balance sheet the net profit is added to, or the net loss is deducted from, the proprietary interest as it was at the beginning of the period to obtain the proprietary interest at the end of the period. The next step in bookkeeping procedure is to close certain accounts on the ledger, so that the only accounts open will be those appearing on the balance sheet.

Closing the Ledger. At the end of the period it is desirable that the results shown by the profit and loss statement be recorded on the ledger. To do this, it is necessary to record the inventories, to close the income and expense accounts, all of which appear in the profit and loss statement, and to transfer the net result to the *Proprietor's* account. This process is called *closing the ledger*.

There are two general methods of closing the ledger — the direct method and the journal method. The direct method is explained and illustrated in the following paragraphs, and the journal method is explained and illustrated on pages 56-66.

The student should study and use whichever method the instructor may prefer. If the direct method is used first, the journal method should be studied and thoroughly understood before the course in bookkeeping is completed.

THE DIRECT METHOD OF CLOSING THE LEDGER

In the direct method of closing the ledger the inventory is recorded and the necessary transfers of amounts between certain accounts are made directly between the accounts in the ledger, without the use of the journal.

Closing the Merchandise Accounts. The *first step* in closing the ledger by the direct method is to record the merchandise inventory and to close the *Merchandise Purchases* and the *Merchandise Sales* accounts. The following accounts with *Merchandise Purchases* and *Merchandise Sales* and a closing inventory of \$1150 are used for the purpose of explanation and illustration :

These are the same accounts as are shown on pages 24 and 25.

<u>Merchandise Purchases</u>			
19- Jan. 5	J 12	1000-	
6	J 12	660-	
13	J 13	725-	
<u>Merchandise Sales</u>			
	19- Jan. 8	J 13	300-
	10	J 13	360-
	15	J 13	575-
	16	J 14	270-

THE MERCHANDISE ACCOUNTS BEFORE CLOSING

The inventory of merchandise on Jan. 31 was \$1150.

The debits to the *Merchandise Purchases* account include both the cost of the goods that have been sold and the cost of the goods on hand. If the value of the merchandise on hand is subtracted from the total purchases, the cost of goods sold is obtained. Furthermore, the merchandise inventory on Jan. 31 is an asset of the business and should appear upon the ledger as such. Both of these purposes may be accomplished by entering the amount of the closing inventory, \$1150, on the credit side of the *Merchandise Purchases* account under date of Jan. 31 and on the debit side of the *Merchandise Inventory* account (a new account now opened in the ledger) under date of Jan. 31.

When this is done the *Merchandise Inventory* account and the *Merchandise Purchases* account appear as follows:

<u>Merchandise Inventory</u>			
19- Jan. 31	Merch. Purchases	1150-	
<u>Merchandise Purchases</u>			
19- Jan. 5	J 12	1000-	* Jan. 31 Inventory 1150-
6	J 12	660-	
13	J 13	725-	

RECORDING THE MERCHANDISE INVENTORY

* Any items or lines that are starred (*) may be written in red ink.

The use of red ink is largely a matter of custom, many bookkeepers not using it at all. Red ink may be used in recording such items in the ledger as are transferred to the opposite side of the same account or of some other account. Thus the line "Jan. 31. Inventory 1150" may be recorded in red ink on the credit side of the *Merchandise Purchases* account, showing that the amount is to be transferred to the debit side of the *Merchandise Inventory* account.

The use of red ink in connection with the various exercises and sets of this text is optional with the instructor.

The balance of the *Merchandise Purchases* account now represents the cost of the goods sold during the period. Since the amount received from these goods is recorded in the *Merchandise Sales* account, this cost of goods sold—the balance of *Merchandise Purchases*—is transferred to the *Merchandise Sales* account so that the gross profit on sales may be found from this latter account. This transfer is made by crediting the *Merchandise Purchases* account with the cost of goods sold and debiting this same amount to *Merchandise Sales*. The *Merchandise Purchases* account is then footed and ruled. The accounts will then appear as follows:

<u>Merchandise Purchases</u>					
19-				19-	
Jan. 5	J 12.	1000—	* Jan. 31	Inventory	1150—
6	J 12.	660—	* 31	Merch. Sales	1235—
13	J 13.	725—			
		2385—			2385—
<u>Merchandise Sales</u>					
19-			19-		
Jan. 31	Merch. Purchases	1235—	Jan. 8	J 13.	300—
			10	J 13.	360—
			15	J 13.	575—
			16	J 14.	270—

THE MERCHANDISE ACCOUNTS AFTER TRANSFERRING THE COST OF GOODS SOLD

* Since these lines are starred, they may be written in red ink.

The credits to the *Merchandise Sales* account record the sales price of merchandise sold during the period, which amounts are composed of the cost of merchandise sold and of the gross profit. The total credit is \$1505. The debit to *Merchandise Sales* records the cost of the sales, \$1235. The difference between the two sides is the gross profit, \$270.

In order to close the *Merchandise Sales* account the amount of this gross profit is now entered on the debit side of the *Merchandise Sales*

account. An account with *Profit and Loss* is now opened in the ledger, and the amount of this gross profit is entered on the credit side. The debit to the *Merchandise Sales* account, the gross profit, is thus offset by this credit of the same amount to the *Profit and Loss* account. The *Merchandise Sales* account is then footed and ruled.

The *Profit and Loss* account is an account opened at the end of a period into which the gross profits and the losses or expenses are closed.

The accounts will then appear as follows:

Merchandise Sales					
19-			19-		
Jan. 31	Merchandise	1235-	Jan. 8	J 13	300-
* 31	Profit and Loss.	270-		J 13	360-
				J 13	575-
				J 14	270-
		1505-			1505-

Profit and Loss	
19-	
Jan. 31	Merchandise Sales
	270-

CLOSING THE MERCHANDISE SALES ACCOUNT

* Since this line is starred, it may be written in red ink; for the balance of the *Merchandise Sales* account, representing the gross profit on merchandise sold, is to be transferred to the credit of the *Profit and Loss* account.

If the cost of goods sold, transferred from *Merchandise Purchases* to the debit of *Merchandise Sales*, exceeds the sum of the credits in *Merchandise Sales*, a gross loss results. The balance of the *Merchandise Sales* account is then credited to *Merchandise Sales* and transferred to the debit of *Profit and Loss*.

The details of closing the merchandise accounts by the direct method are as follows:

1. The inventory of Jan. 31 was credited to *Merchandise Purchases* and debited to *Merchandise Inventory*. A new account was opened with *Merchandise Inventory*.

2. The balance of the *Merchandise Purchases* account, the cost of goods sold, was credited to *Merchandise Purchases* and debited to *Merchandise Sales*. The *Merchandise Purchases* account was footed and ruled.

3. The balance of the *Merchandise Sales* account, the gross profit, was debited to *Merchandise Sales* and credited to *Profit and Loss*. The *Merchandise Sales* account was footed and ruled. A new account was opened with *Profit and Loss*.

Closing the Expense Accounts. The *second step* in closing the ledger is to close the expense accounts.

The following expense accounts are used in the explanations and illustrations of closing the expense accounts.

		<u>Rent Expense</u>		
19-		J 12	60-	
Jan.	3			
		<u>Salary</u>		
19-		J 12	18-	
Jan.	6			
	13	J 13	18-	

RENT EXPENSE AND SALARY ACCOUNTS BEFORE CLOSING

Each of these accounts is closed by writing on the credit side of the account the data relative to the transfer of the amount to the debit of the *Profit and Loss* account. On the debit side of the *Profit and Loss* account should be written the date, name of the account closed, and the amount.

After the amounts in the *Rent Expense* and *Salary* accounts are transferred to the *Profit and Loss* account, and after the *Rent Expense* and *Salary* accounts are footed and ruled, the accounts involved will appear as follows:

		<u>Rent Expense</u>		
19-		J 12	60-	19- Jan. 31 Profit and Loss 60-
Jan.	3			
		<u>Salary</u>		
19-		J 12	18-	19- Jan. 31 Profit and Loss 36-
Jan.	6			
	13	J 13	18-	
			36-	36-
		<u>Profit and Loss</u>		
19-				19- Jan. 31
Jan.	31	Rent Expense	60-	Income Sales 270-
	31	Salary	36-	

THE EXPENSE ACCOUNTS CLOSED

Closing the Profit and Loss Account. The *third step* in closing the ledger is to transfer the difference between the two sides of the *Profit and Loss* account to the *Proprietor's* account.

The *Profit and Loss* account just illustrated shows that the account is debited with the amounts of the expense accounts of the period, \$60 and \$36, and is credited with the gross profit on merchandise sold, \$270. The difference between these amounts, \$174, is the net profit of the period and should be transferred directly to the credit of the *A. M. Bond, Proprietor*, account. After this transfer, and after the *Profit and Loss* account is footed and ruled, these two accounts will appear as follows:

		<i>Profit and Loss</i>			
19-			19-		
Jan. 31	Rent Expense	60 -	Jan. 31	Merch. Sales	270 -
	31 Salary	36 -			
*	31 A. M. Bond, Prop.	174 -			
		270 -			270 -
		<i>A. M. Bond, Proprietor</i>			
		19-	Jan. 2	J 12	2000 -
			31 Profit and Loss		174

THE PROFIT AND LOSS ACCOUNT CLOSED

If the *Merchandise Sales* account shows a gross loss, the *Profit and Loss* account is debited with the amount of such loss and also with the operating expenses. The net loss is then the sum of these debits.

If the *Merchandise Sales* account shows a gross profit, the *Profit and Loss* account is credited with the amount of such profit. Sometimes the operating expenses, debits to the *Profit and Loss* account, exceed this gross profit. The net loss is then the difference between these debits and the credit.

In either case, the amount of the net loss is entered on the credit side of the *Profit and Loss* account and on the debit side of the *Proprietor's* account.

The student should note that the *Profit and Loss* account is an account opened on the ledger at the end of a period to group together the expenses and gross profit or gross loss, so that the net profit or net loss may be determined. The *Profit and Loss* account is closed just as soon as this purpose is accomplished by transferring the net profit or net loss to the *Proprietor's* account.

Balancing the Proprietor's Account. The *fourth and final step* in closing the ledger is to foot and rule the *Proprietor's* account and to bring forward the amount so that this account will show in one amount the proprietary interest, or present worth of the business at the end of the period.

The account with *A. M. Bond, Proprietor*, shows that Mr. Bond invested \$2000 on Jan. 2, and that he made a net profit of \$174 during the month of January. His present worth, then, on Jan. 31, is the sum of these two items. Enter the date, the words *Present Worth*, and the amount on the debit side of the *A. M. Bond, Proprietor*, account and foot and rule the account. Bring down the present worth on the credit side of the account, under date of Feb. 1. The account will then appear as follows:

<i>A. M. Bond, Proprietor</i>					
¹⁹⁻			¹⁹⁻		
* Jan. 31	Present Worth	2174~	Jan. 2	J 12	2000~
			31	Profit and Loss	174~
		2174~			2174~
			Feb. 1	Present Worth	2174~

THE PROPRIETOR'S ACCOUNT AFTER BALANCING

The diagram on the opposite page illustrates the closing of the ledger by the direct method.

Summary of Closing the Ledger by the Direct Method. In closing the ledger by the direct method the inventory is recorded and the necessary transfers of amounts between certain accounts are made directly between these accounts in the ledger. A summary of the four steps to be followed in closing the ledger by the direct method is as follows:

1. Record the closing inventory on the credit side of the *Merchandise Purchases* account and on the debit side of the *Merchandise Inventory* account. Transfer the balance of the *Merchandise Purchases* account, representing the cost of goods sold, to the *Merchandise Sales* account. Foot and rule the *Merchandise Purchases* account. Transfer the balance of the *Merchandise Sales* account, representing the gross profit or the gross loss on sales, to the *Profit and Loss* account. Foot and rule the *Merchandise Sales* account.

2. Close the expense accounts directly to the debit of the *Profit and Loss* account.

3. Transfer the amount necessary to balance the *Profit and Loss* account, the net profit or the net loss, to the *Proprietor's* account. If a net profit, the amount is transferred to the credit of the *Proprietor's* account; if a net loss, to the debit of the *Proprietor's* account. Foot and rule the *Profit and Loss* account.

4. Foot and rule the *Proprietor's* account and bring forward the amount which will show the present worth of the proprietor on the first day of the following period.

Merchandise Inventory			
19- Jan. 31	Merch. Purch.	1150 -	

Rent Expense			
19- Jan. 3	J 12	60 -	19- Jan. 31 Profit and Loss 60 -

Merchandise Purchases			
19- Jan. 5	J 12	1000 -	19- Jan. 31 Merch. Inventory 1150 -
6	J 12	660 -	1235 -
13	J 13	725 -	2385 -

Salary			
19- Jan. 6	J 12	18 -	19- Jan. 31 Profit and Loss 36 -
13	J 13	18 -	36 -

Merchandise Sales						Profit and Loss					
19- Jan. 31	Merch. Purch.	1235 -	19- Jan. 8	J 13	300 -	19- Jan. 31	Rent Expense	60 -	19- Jan. 31	Misc. Sales	270 -
• 31	Profit and Loss	270 -	40	J 13	360 -	31	Salary	36 -			
			15	J 13	575 -	• 31	Am. Bond Bk.	174 -			
			16	J 14	270 -			270 -			270 -
		1505 -			1505 -						

Profit and Loss					
19- Jan. 31	Rent Expense	60 —	19- Jan. 31	Merch. Sales	270 —
31	Salary	36 —			
	• 31	• 31			

J M Bond Proprietor					
19- Jan. 31	Present Worth	2174 -	19- Jan. 2	J 12	2000 -
			31	Highland Ls	174 -
		2174 -			2174 -
			Feb. 1	Present Worth	2174 -

DIAGRAM OF A LEDGER CLOSED BY THE DIRECT METHOD

THE JOURNAL METHOD OF CLOSING THE LEDGER

In the journal method of closing the ledger, entries for recording the inventory and the necessary transfers of amounts between certain accounts are made in the journal and are then posted to the ledger accounts.

Closing the Merchandise Accounts. The *first step* in closing the ledger by the journal method is to make and post entries to record the merchandise inventory and to close the *Merchandise Purchases* and the *Merchandise Sales* accounts. The following merchandise accounts and the closing inventory are used for the purpose of explanation and illustration :

These are the same accounts as are shown on pages 24 and 25.

<u>Merchandise Purchases</u>			
19- Jan. 5	J 12	1000-	
6	J 12	660-	
13	J 13	725-	
<u>Merchandise Sales</u>			
	19- Jan. 8	J 13	300-
	10	J 13	360-
	15	J 13	575-
	16	J 14	270-

THE MERCHANDISE ACCOUNTS BEFORE CLOSING

The inventory of merchandise on Jan. 31 was \$1150.

The cost of merchandise purchased, as shown by the debits to the *Merchandise Purchases* account, includes both the cost of the goods that have been sold and the cost of the goods on hand. If the value of the merchandise on hand is subtracted from the total purchases, the cost of the goods sold is obtained. It should be realized that subtraction in bookkeeping is accomplished by entering the amount to be subtracted on the opposite side of the account. Furthermore, the merchandise inventory of Jan. 31 is an asset of the business and should appear upon the ledger as such.

Therefore, to subtract the amount of the merchandise inventory, \$1150, from the total purchases, \$2385, and at the same time to record the inventory, the following journal entry is made :

Merchandise Inventory	1150 —	
Merchandise Purchases		1150 —
To record the merchant- dis inventory and to cred- it the Merchandise Pur- chases account for the merchandise remaining unsold on January 31.		

JOURNAL ENTRY RECORDING MERCHANDISE INVENTORY

A *Merchandise Inventory* account is now opened in the ledger to record the value of the closing inventory as an asset on Jan. 31. After this account has been opened and the entry has been posted the accounts will appear as follows:

19-	<u>Merchandise Inventory</u>			
Jan. 31	J 57	1150 —		
19-	<u>Merchandise Purchases</u>			
Jan. 5	J 12	1000 —	19- Jan. 31	J 57 1150 —
6	J 12	660 —		
13	J 13	725 —		

MERCHANDISE INVENTORY AND MERCHANDISE PURCHASES ACCOUNTS

The *Merchandise Inventory* account is to be distinguished from the *Merchandise Purchases* account, which records current purchases of merchandise, and from the *Merchandise Sales* account, which records current sales of merchandise. Thus three accounts are for the present kept with merchandise—*Merchandise Inventory*, *Merchandise Purchases*, and *Merchandise Sales*.

The balance of the *Merchandise Purchases* account now represents the cost of the goods sold during the period. Since the amount received from these goods is recorded in the *Merchandise Sales* account, this cost of goods sold — the balance of *Merchandise Purchases* — is transferred to the *Merchandise Sales* account so that the gross profit on sales may be found from this latter account. The journal entry on page 58 is now made.

<i>Merchandise Sales</i>	1235—	
<i>Merchandise Purchases</i>		1235—
<i>To transfer the balance of the Merchandise Purchases account, representing the cost of goods sold, to the Merchandise Sales account.</i>		

JOURNAL ENTRY TRANSFERRING COST OF GOODS SOLD TO THE SALES ACCOUNT

After this entry is posted, and the *Merchandise Purchases* account footed and ruled, the accounts will appear as follows:

<i>Merchandise Purchases</i>			
19- Jan. 5	J 12 1000—	19- Jan. 31	J 57 1150—
6	J 12 660—	31	J 58 1235—
13	J 13 725—		
	2385—		2385—

<i>Merchandise Sales</i>			
19- Jan. 31	J 58 1235—	19- Jan. 8	J 13 300—
		10	J 13 360—
		15	J 13 575—
		16	J 14 270—

CLOSING THE MERCHANDISE PURCHASES ACCOUNT

The credits to the *Merchandise Sales* account record the sales prices of the merchandise sold during the period, which amounts are composed of the cost of the merchandise sold and of the gross profit. The total credit is \$1505. The debit to *Merchandise Sales* records the cost of the sales, \$1235. The difference between the two sides is the gross profit, \$270.

There is a gross profit only when the total sales price of the merchandise exceeds the cost.

To transfer the gross profit from the *Merchandise Sales* account to the *Profit and Loss* account, the following journal entry is now made:

<i>Merchandise Sales</i>	270—	
<i>Profit and Loss</i>		270—
<i>To transfer the balance of the Merchandise Sales account, representing the gross profit on the merchandise sold, to the Profit and Loss account.</i>		

JOURNAL ENTRY RECORDING THE GROSS PROFIT

An account with *Profit and Loss* is now opened in the ledger.

The *Profit and Loss* account is an account opened at the end of a period into which the gross profits and the losses, or expenses, are closed.

After the above entry is posted and the *Merchandise Sales* account is footed and ruled, the accounts will appear as follows:

<u>Merchandise Sales</u>					
19—			19—		
Jan. 31	J 58	1235—	Jan. 8	J 13	300—
31	J 59	270—	10	J 13	360—
			15	J 13	575—
			16	J 14	270—
		1505—			1505—

<u>Profit and Loss</u>	
19—	
Jan. 31	J 59 270—

CLOSING THE MERCHANDISE SALES ACCOUNT

If the cost of goods sold, transferred from *Merchandise Purchases* to the debit of *Merchandise Sales*, exceeds the sum of the credits in *Merchandise Sales*, a gross loss results. An entry is then made and posted debiting *Profit and Loss* and crediting *Merchandise Sales* for the balance in the *Merchandise Sales* account.

The details of closing the merchandise accounts by the journal method are as follows:

1. The inventory of Jan. 31 was recorded, by making and posting a journal entry, to the debit of *Merchandise Inventory* and to the credit of *Merchandise Purchases*.

2. The balance of the *Merchandise Purchases* account, the cost of goods sold, was transferred, by making and posting a journal entry, to the debit of *Merchandise Sales* and to the credit of *Merchandise Purchases*. The *Merchandise Purchases* account was footed and ruled.

3. The balance of the *Merchandise Sales* account, the gross profit, was transferred, by making and posting a journal entry, to the debit of *Merchandise Sales* and to the credit of *Profit and Loss*. The *Merchandise Sales* account was footed and ruled.

Closing the Expense Accounts. The *second step* in closing the ledger is to close the expense accounts. In closing the ledger by the journal method, the amounts of these accounts are transferred to the *Profit and Loss* account by making and posting journal entries.

The following expense accounts are used in the explanations and illustrations of closing the expense accounts:

<i>Jan.</i> ¹⁹⁻ 3		<i>J</i> 12	<u><i>Rent Expense</i></u>		
			60—		
<i>Jan.</i> ¹⁹⁻ 6		<i>J</i> 12	<u><i>Salary</i></u>		
			18—		
13		<i>J</i> 13	18—		

EXPENSE ACCOUNTS BEFORE CLOSING

To close the *Rent Expense* account, the following journal entry should be made:

<i>Profit and Loss</i>	60—	
<i>Rent Expense</i>		60—
<i>To close the Rent Expense account into the Profit and Loss account.</i>		

JOURNAL ENTRY CLOSING THE RENT EXPENSE ACCOUNT

To close the *Salary* account, the following journal entry should be made:

<i>Profit and Loss</i>	36—	
<i>Salary</i>		36—
<i>To close the Salary account into the Profit and Loss account.</i>		

JOURNAL ENTRY CLOSING THE SALARY ACCOUNT

After these two entries are posted and the *Rent Expense* and *Salary* accounts footed and ruled, the accounts involved will appear as follows:

<u>Rent Expense</u>					
¹⁹⁻ Jan. 3	J 12	60—	¹⁹⁻ Jan. 31	J 60	60—
<u>Salary</u>					
¹⁹⁻ Jan. 6	J 12	18—	¹⁹⁻ Jan. 31	J 61	36—
13	J 13	18—			
		36—			36—
<u>Profit and Loss</u>					
¹⁹⁻ Jan. 31	J 60	60—	¹⁹⁻ Jan. 31	J 59	270—
31	J 61	36—			

RENT EXPENSE AND SALARY ACCOUNTS AFTER CLOSING

Closing the Profit and Loss Account. The *third* step in closing the ledger is to transfer the difference between the two sides of the *Profit and Loss* account to the *Proprietor's* account.

The *Profit and Loss* account just illustrated shows that the account is debited with the expense accounts of the period, \$60 and \$36, and is credited with the gross profit on merchandise sold, \$270. The difference between these amounts, \$174, is the net profit of the period and should be transferred to the credit of the A. M. Bond, *Proprietor*, account by making and posting the journal entry on page 62.

<i>Profit and Loss</i>		174—	
<i>A. M. Bond, Proprietor</i>			174—
<i>To transfer the net profit of the period to the Proprietor's account.</i>			

JOURNAL ENTRY CLOSING THE PROFIT AND LOSS ACCOUNT

The accounts will appear as follows :

Profit and Loss					
Jan. 31 ¹⁹⁻	J 60	60—	Jan. 31 ¹⁹⁻	J 59	270—
31	J 61	36—			
31	J 62	174—			
		270—			270—
<hr/>					
A. M. Bond, Proprietor					
	Jan. 2 ¹⁹⁻		J 12	2000—	
	31		J 62	174—	

ACCOUNTS RECORDING NET PROFIT

If the *Merchandise Sales* account shows a gross loss, the *Profit and Loss* account is debited with the amount of such loss and also with the operating expenses. The net loss is then the sum of these debits.

If the *Merchandise Sales* account shows a gross profit, the *Profit and Loss* account is credited with the amount of such profit. Sometimes the operating expenses, debited to the *Profit and Loss* account, exceed this gross profit. The net loss is then the difference between these debits and the credit.

In either case, a journal entry should be made and posted, debiting the *Proprietor's* account and crediting the *Profit and Loss* account for the amount of the net loss.

The student should note that the *Profit and Loss* account is an account opened on the ledger at the end of a period to group together the expenses and gross profit or gross loss, so that the net profit or net loss may be determined. The *Profit and Loss* account is closed just as soon as this purpose is accomplished, by transferring the net profit or net loss to the *Proprietor's* account.

Balancing the Proprietor's Account. The *fourth* and *final* step in closing the ledger is to foot and rule the *Proprietor's* account and to bring forward the amount, so that this account will show in one amount the proprietary interest, or present worth of the business, at the end of the period.

The account with *A. M. Bond, Proprietor*, shows that Mr. Bond invested \$2000 on Jan. 2 and that he made a net profit of \$174 during the month of January. His present worth, then, on Jan. 31, is the sum of these two items. Enter the date, the words *Present Worth*, and the amount on the debit side of the *A. M. Bond, Proprietor*, account and foot and rule the account. Bring down the present worth on the credit side of the account, under date of Feb. 1. The account will then appear as follows:

<i>A. M. Bond, Proprietor</i>			
* Jan. 31	<i>Present Worth</i>	2174—	Jan. 2
			J 12 2000—
			J 62 174—
		2174—	2174—
			Feb. 1
	<i>Present Worth</i>		2174—

PROPRIETOR'S ACCOUNT AFTER BALANCING

The model ledger of *A. M. Bond, Proprietor*, closed by the journal method, is given on pages 64–66.

Summary of Closing the Ledger by the Journal Method. A summary of the four steps to be followed in closing the ledger by the journal method is as follows:

1. Make and post a journal entry debiting *Merchandise Inventory* and crediting *Merchandise Purchases* for the value of the closing inventory. Make and post a journal entry transferring the balance of the *Merchandise Purchases* account, representing the cost of goods sold, to the *Merchandise Sales* account. Foot and rule the *Merchandise Purchases* account. Make and post a journal entry transferring the balance of the *Merchandise Sales* account, representing the gross profit or the gross loss on sales, to the *Profit and Loss* account. Foot and rule the *Merchandise Sales* account.

2. Make and post journal entries transferring the expense accounts to the debit of the *Profit and Loss* account. Foot and rule the expense accounts.

3. Make and post a journal entry transferring the amount necessary to balance the *Profit and Loss* account, the net profit or the net loss, to the *Proprietor's* account. If a net profit, the journal entry is to debit *Profit and Loss* and to credit the *Proprietor's* account. If a net loss, the journal entry is to debit the *Proprietor's* account and to credit the *Profit and Loss* account. Foot and rule the *Profit and Loss* account.

* Red ink may be used, if desired, for entering the data on the debit side of the *Proprietor's* account. Such use would imply that the amount was to be transferred to the opposite side of the same account.

Cash

¹⁹⁻ Jan. 2	J 12	2000-	¹⁹⁻ Jan. 3	J 12	60-
8	J 13	300-	4	J 12	100-
12	J 13	360-	5	J 12	1000-
16	J 14	270-	6	J 12	18-
		2930-	11	J 13	660-
			13	J 13	18-
			17	J 14	600-
					2456
			* 31 Balance		474-
		2930-			2930-
Feb. 1 Balance		474-			

A. B. Blue

¹⁹⁻ Jan. 15	80 Mound Street	J 13	575-	Lowell, Mass.
---------------------------	-----------------	------	------	---------------

R. A. King

¹⁹⁻ Jan. 10	20 Central Street	J 13	360-	¹⁹⁻ Jan. 12	Lawrence, Mass.	J 13	360-
---------------------------	-------------------	------	------	---------------------------	-----------------	------	------

Merchandise Inventory

¹⁹⁻ Jan. 31	J 57	1150-
---------------------------	------	-------

Furniture and Furnishings

¹⁹⁻ Jan. 4	J 12	100-
--------------------------	------	------

B. L. Bemis

¹⁹⁻ Jan. 17	40 Canal Street	J 14	600-	¹⁹⁻ Jan. 13	Springfield, Mass.	J 13	725-
---------------------------	-----------------	------	------	---------------------------	--------------------	------	------

140 Market Street		<i>S. L. Martin</i>		Providence, R. I.	
¹⁹⁻ Jan. 11	J 13	660 -	¹⁹⁻ Jan. 6	J 12	660 -

<i>A. M. Bond, Proprietor</i>					
* ¹⁹⁻ Jan. 31 Present Worth	2174 -	¹⁹⁻ Jan. 2	J 12	2000 -	
		31	J 62	174 -	
	2174 -			2174 -	
		Feb. 1 Present Worth		2174 -	

<i>Profit and Loss</i>					
¹⁹⁻ Jan. 31	J 60	60 -	¹⁹⁻ Jan. 31	J 59	270 -
31	J 61	36 -			
31	J 62	174 -			
		270 -			270 -

<i>Merchandise Sales</i>					
¹⁹⁻ Jan. 31	J 58	1235 -	¹⁹⁻ Jan. 8	J 13	300 -
31	J 59	270 -	10	J 13	360 -
			15	J 13	575 -
			16	J 14	270 -
		1505 -			1505 -

<i>Merchandise Purchases</i>					
¹⁹⁻ Jan. 5	J 12	1000 -	¹⁹⁻ Jan. 31	J 57	1150 -
6	J 12	660 -	31	J 58	1235 -
13	J 13	725 -			
		2385 -			2385 -

<u>Rent Expense</u>					
¹⁹⁻ Jan. 3	J 12	60 -	¹⁹⁻ Jan. 31	J 60	60 -
<u>Salary</u>					
¹⁹⁻ Jan. 6	J 12	18 -	¹⁹⁻ Jan. 31	J 61	36 -
13	J 13	18 -			
		36 -			36 -

MODEL LEDGER AFTER CLOSING BY THE JOURNAL METHOD

4. Foot and rule the *Proprietor's* account and bring forward the amount which will show the present worth of the Proprietor on the first day of the following period.

Proof Trial Balance. After the ledger has been closed, a trial balance usually is taken of the remaining open accounts to prove that the ledger is in balance. Such a trial balance is called a *proof trial balance*. The only accounts appearing in a proof trial balance are asset, liability, and proprietary-interest accounts. A proof trial balance of the model ledger on pages 64-66 is as follows:

A. M. Bond

PROOF TRIAL BALANCE

Jan. 31, 19—

Cash	474	—		
A. B. Blue	575	—		
Merchandise Inventory	1150	—		
Furniture and Furnishings	100	—		
B. L. Bemis			125	—
A. M. Bond, Proprietor			2174	—
	2299	—	2299	—

Exercise 31. Written

CLOSING THE LEDGER

On sheets of ledger paper, open accounts in the order given in the problems below, allowing six lines to each account. Close these ledgers.

The instructor will inform the student as to which method—the direct or the journal—is to be used.

I

MERCHANDISE INVENTORY

19— Jan 31		J	—	450	—						
---------------	--	---	---	-----	---	--	--	--	--	--	--

G. L. DAVIS, PROPRIETOR

Jan 31	Investment	J	—	506.99	19— Jan. 2	J.	1	2800	—
					Jan 31	J	—	180	—
								1000	

PROFIT AND LOSS

Jan 31		J	—	40	Jan 31	J	—	299	
				70					
				87					
				299				299	

MERCHANDISE SALES

Jan 31		J	—	937	19— Jan. 11	J.	4	500	—
Jan 31		J	—	299	22	J.	6	340	—
					27	J.	7	396	—
								30	

MERCHANDISE PURCHASES

19— Jan. 8	J.	3	650	—	Jan 31	J	—	400	—
15	J.	5	325	—				937	
27	J.	7	412	—					
			1387						

RENT EXPENSE

19— Jan.	2	J.	1	40	—	Jan 31			—	40
-------------	---	----	---	----	---	--------	--	--	---	----

SALARY

19— Jan.	8	J.	3	15	—	Jan 31			—	70
	15	J.	5	15	—					
	22	J.	6	20	—					
	29	J.	7	20	—					

Merchandise Inventory, Jan. 31, \$450

II

MERCHANDISE INVENTORY

FEB	28	J	13	500						
-----	----	---	----	-----	--	--	--	--	--	--

W. A. SMALL, PROPRIETOR

FEB 28	present stock		1946		19— Feb.	2	J.	1	1800	—
									140	
									1940	

PROFIT AND LOSS

LEV	—		60	60		—				
—	—			40						
—	—			146						
				246					246	—

MERCHANDISE SALES

FE	28			780	19—								
				246	Feb.	3		J.	1	210	—		
						14		J.	3	300	—		
						27		J	6	516	—		
				1026						1026			

MERCHANDISE PURCHASES

19—					FE	28				500			
Feb.	2	J.	1	310						780			
	12	J.	3	420									
	26	J.	6	550						1280			
				1280									

RENT EXPENSE

19—										40	—		
Feb.	3	J.	1	40									

SALARY

19—					FE					60			
Feb.	7	J.	2	15									
	14	J.	3	15									
	21	J.	5	15									
	28	J.	6	15									

Merchandise Inventory, Feb. 28, \$500.

III

MERCHANDISE INVENTORY

				66									
--	--	--	--	----	--	--	--	--	--	--	--	--	--

WILLIAM BROWN, PROPRIETOR

Mar. 31	Paid to Smith	2013 177	19— Mar.	2	J.	1	2200	—
							2013	

PROFIT AND LOSS

Mar. 31		89						
Mar. 31		60						
Mar. 31	Loss	40						
		<u>189</u>						

MERCHANDISE SALES

		100	19— Mar.	3	J.	1	160	—
		40		17	J.	6	700	—
				27	J.	8	400	—
		<u>150</u>					<u>1260</u>	

MERCHANDISE PURCHASES

19— Mar.	2	J.	1	300	—			
	10	J.	4	600	—			
	16	J.	6	240	—			
	24	J.	7	820	—			
				<u>1960</u>				

RENT EXPENSE

19— Mar.	2	J.	1	60	—	Mar. 31		
-------------	---	----	---	----	---	---------	--	--

MERCHANDISE PURCHASES

19—									450
July	9	J.	4	850	—				91
	15	J.	5	275	—				
	27	J.	9	262	—				1877

RENT EXPENSE

[illegible]

SALARY

19— July	15 31	J. J.	5 10	35 35	— —						
-------------	----------	----------	---------	----------	--------	--	--	--	--	--	--

Merchandise Inventory, July 31, \$450.

Balancing the Cash Account. It is usual at the end of each month to balance the *Cash* account. This account, as well as any other account, may be balanced in accordance with the following model:

CASH

19— Jan.	2	J.	1	1200	—	19— Jan.	2	J.	1	476	25
	5	J.	1	224	69		4	J.	1	335	50
	11	J.	1	307	80		14	J.	1	40	—
	27	J.	2	156	89		18	J.	2	440	69
				<i>1889</i>	<i>38</i>		28	J.	2	40	—
						*	31	Balance		<i>1332</i>	<i>44</i>
				1889	38					556	94
										1889	38
Feb.	1	Balance		556	94						

The attention of the student is called to the fact that the word *balance* is used in two different ways in bookkeeping. A frequent use of the word is found in the expression "the account is in balance," which means that the sum of the debits in the account under consideration equals the sum of the credits. A second use of the word

is found in the above illustration, where "to balance an account" means to total the two sides of the account, to write the difference between the two totals—the balance—in with the smaller of the totals, to foot and rule the account, and to bring forward the balance on the opposite side of the account.

Transferring Accounts. When the space allotted to a particular account in the ledger has been filled, it may be transferred by balancing as explained above, and forwarding the balance to the new page, or the totals of the debits and of the credits may be forwarded to the new page, as illustrated in the following models:

CASH

19—						19—					
May	2	J.	1	635	—	May	3	J.	1	27	—
	3	J.	1	167	—		5	J.	1	41	24
	9	J.	2	189	90		7	J.	2	294	75
	11	J.	2	98	50		10	J.	2	44	67
	14	J.	3	155	50		13	J.	2	21	—
	20	J.	4	69	—		16	J.	3	45	25
							20	J.	4	56	89
	20	Forward	24	1314	90		20	Forward	24	530	80

CASH

19—						19—					
May	21	Brot. forward	17	1314	90	May	21	Brot. forward	17	530	80

Note that the folio to which the account is transferred is written in the F. column of the account from which the amounts are transferred, and vice versa.

Exercise 32. Oral

TOPICS FOR CLASS DISCUSSION

1. What is meant by *closing the ledger*?
2. What is the purpose of the *Profit and Loss* account? When is it opened and when is it closed?

Topics 3-7 inclusive are based on the direct method of closing the ledger.

Topics 8-12 inclusive are based on the journal method of closing the ledger.

3. Explain the detailed steps in closing the merchandise accounts by the direct method.

4. Explain how the expense accounts are closed by the direct method.

5. Explain how the difference between the two sides of the *Profit and Loss* account is transferred to the *Proprietor's* account by the direct method.

6. State the purpose of bringing forward the present worth in the *Proprietor's* account at the end of the month.
7. Summarize the four steps to be followed in closing the ledger by the direct method.
8. Explain the detailed steps in closing the merchandise accounts by the journal method.
9. Explain how the expense accounts are closed by the journal method.
10. Explain how the difference between the two sides of the *Profit and Loss* account is transferred to the *Proprietor's* account at the end of the month.
11. State the purpose of bringing forward the present worth in the *Proprietor's* account at the end of the month.
12. Summarize the four steps to be followed in closing the ledger by the journal method.
13. Explain the two ways in which the word *balance* is used in bookkeeping.

CHAPTER VII

NEW ACCOUNTS, CLASSIFICATION OF ACCOUNTS, AND SUMMARY OF PRINCIPLES OF DEBIT AND CREDIT

Accounts with Fuel Inventory and Fuel. Up to this point the expenses incurred in operating a business have been entirely consumed or used during the period in which they were purchased. To illustrate, on Jan. 2 cash is paid for the rent of a store for January, \$60. This expense means that the proprietor has the right to occupy and use the store for the month of January only; and if he wishes to use the premises in February, another payment for rent must be made. Again, a clerk is paid cash for his services for the week, \$20. These services were used in operating the business during the week for which he has just been paid, and additional salary must be paid him if he works the following week.

There are, however, several types of expenses which are not consumed in the one period in which they are purchased, but which are used in one or more of the following periods. To illustrate, assume a merchant buys for cash 10 tons of coal @ \$14 on Jan. 2. If on Jan. 31 it were found that there were 7 tons of coal on hand, it would mean that 3 tons of coal, costing \$42, should appear on the books and on the profit and loss statement as an operating expense of January and that the inventory value of the coal on hand Jan. 31, \$98, should appear on the books and on the balance sheet as an asset.

In recording this transaction on Jan. 2, recognition is given the fact that but a part of this coal will be used during January, and the debit is made to an account called *Fuel Inventory*. It would not be proper to debit an expense account.

When the inventory is taken on Jan. 31, the book inventory of coal purchased on Jan. 2 is reduced to the actual value of coal on hand Jan. 31 by transferring the value of the coal consumed during the month to an expense account called *Fuel*. This transfer is made by means of a journal entry which has for its purpose the adjustment of the debit in the account to the inventory value at the end of the period. For this reason such a journal entry is often called an *adjusting entry*.

The manner of making this adjustment is shown in the following explanation and illustration, where the *Fuel Inventory* account, referred to above, appears as on page 76.

FUEL INVENTORY

19— Jan.	2		J.	1	140	—													
-------------	---	--	----	---	-----	---	--	--	--	--	--	--	--	--	--	--	--	--	--

In order to reduce this asset account with *Fuel Inventory* to the actual amount of coal remaining on hand Jan. 31 and also to charge the operating-expense account *Fuel* with the cost of the coal actually used during January, the following journal entry should be made:

Fuel	\$42	
Fuel Inventory		\$42
Cost of coal consumed during January.		

When this entry is posted, the accounts appear as follows:

FUEL INVENTORY

19— Jan.	2		J.	1	140	—	19— Jan.	31		J.	3	42	—
-------------	---	--	----	---	-----	---	-------------	----	--	----	---	----	---

FUEL

19— Jan.	31		J.	3	42	—													
-------------	----	--	----	---	----	---	--	--	--	--	--	--	--	--	--	--	--	--	--

The *Fuel* account appears on the profit and loss statement, and on the same day, Jan. 31, this ledger account is closed into *Profit and Loss*, as one of the operating expenses of the month of January.

The *Fuel Inventory* account appears on the balance sheet at the Jan. 31 value. On the ledger this account is balanced, and the correct inventory value of coal on hand brought forward under date of Feb. 1. When this is done it will appear as follows:

FUEL INVENTORY

19— Jan.	2		J.	1	140	—	19— Jan.	31		J.	3	42	—
							*	31					
					140	—			Inventory			98	—
					98	—						140	—
Feb.	1	Inventory											

Accounts with Office Supplies Inventory and Office Supplies. Another illustration of making a disbursement for an expense item which usually lasts more than one period is found when office supplies are bought. Assume that a merchant starts in business in January and on

Jan. 2 buys books of account, stationery, ink, pencils, etc. costing \$50. Since it is known at the time that these supplies will last longer than the month of January, the cost of such office supplies is debited to *Office Supplies Inventory*, an account kept for the purpose of recording purchases of office supplies which will last longer than one period. On Jan. 31 the inventory of office supplies is taken and is found to be \$35, so that an expense account called *Office Supplies* should be debited with the value of the supplies used during January—the difference between the inventory value of office supplies on Jan. 31 and the debit to the *Office Supplies Inventory* account. The *Office Supplies* account appears on the profit and loss statement for January and is then closed into *Profit and Loss* as an operating expense of January. The *Office Supplies Inventory* account appears on the balance sheet at the Jan. 31 value. On the ledger this account is balanced, and the correct inventory value of office supplies on hand brought forward under date of Feb. 1.

The inventory of office supplies is taken by valuing the supplies actually on hand.

If, on Feb. 10, office supplies were purchased for cash, \$10, the entry would be as follows:

Office Supplies Inventory	\$10	
Cash		\$10
Office supplies bought of Allen & Co.		

If the inventory of office supplies on hand Feb. 28 were \$25, the following journal entry would be made and posted so that the expense account with *Office Supplies* may be charged with the proper amount for February, and the *Office Supplies Inventory* account reduced to the value of such supplies on Feb. 28:

Office Supplies	\$20	
Office Supplies Inventory		\$20
Office supplies used during February.		

After posting this entry and balancing the *Office Supplies Inventory* account, it would appear as follows:

OFFICE SUPPLIES INVENTORY

19—						19—							
Jan.	2	J.	1	50	—	Jan.	31	J.	4	15	—		
						*	31			35	—		
				50	—					50	—		
Feb.	1	Inventory		35	—	Feb.	28	J.	10	20	—		
	10	J.	6	10	—	*	28			25	—		
				45	—					45	—		
Mar.	1	Inventory		25	—								

Exercise 33. Oral or Written

ACCOUNTS WITH FUEL AND OFFICE SUPPLIES

1. On Nov. 6, G. L. Davis purchased, for cash, from the Wilson Fuel Co. 20 tons of coal @ \$12. Make the entry necessary to record the above purchase.

At the close of November, G. L. Davis had 16 tons of coal on hand. Make the entry necessary to include the cost of the coal used in the November expenses.

What is the balance of the asset account? Into what account is the expense account closed?

2. On Sept. 2, H. M. Morris purchased, for cash, office supplies, \$75. What entry should be made to record the above purchase?

If, at the close of September, H. M. Morris inventories the office supplies on hand at \$50, what adjusting entry should be made to include the cost of office supplies used in the September expenses?

What is the balance of the asset account? Into what account is the expense account closed? *Proprietor's Investment Account*

Proprietor's Investment Account and Proprietor's Drawing Account.

Up to the present time the account with the owner of the business—the Proprietor's—was used to record both the investment made in a business and the net profit made or net loss suffered from operating the business for a given period of time. To illustrate, the account with *A. M. Bond, Proprietor*, on page 24, shows that he invested \$2000 in the business on Jan. 2, and that his net profit for the month of January was \$174.

In many lines of business it is customary for the proprietor to take merchandise from the store for use in his home, and this merchandise should be charged to the Proprietor at cost price. Again, many household or private bills are frequently paid with the funds of the business, and such items should be debited to the Proprietor. The proprietor sometimes withdraws cash for purposes other than salary, and such withdrawals should be debited to the Proprietor. The proprietor assumes, in making those withdrawals of merchandise or money, that the net profit from operating the business will be sufficient to offset all withdrawals.

In order that such current withdrawals of merchandise or money and such current items as net profit and net loss, usually calculated monthly, may not be confused with the proprietor's investment, two accounts will hereafter be kept with each proprietor—an *Investment* account and a *Drawing* account.

The *Proprietor's Investment* account will record as a credit the investment made in the business.

The *Proprietor's Drawing* account will record the following items:

DEBITS	CREDITS
Net loss of the business	Net profit of the business
Merchandise withdrawn for personal use	
Cash withdrawn for personal use	
Household or private bills paid by business funds	

A debit balance in the *Proprietor's Drawing* account shows that the proprietor has withdrawn more than the net profit; a credit balance shows that the net profit is in excess of the withdrawals.

If the *Proprietor's Drawing* account does not balance, the account should always remain open; it should never be closed into the *Proprietor's Investment* account.

The *Investment* account is sometimes called the *Capital* account, and the *Drawing* account is sometimes called the *Personal* account.

The following illustrations show how, in a balance sheet, taken Dec. 31, 19—, the balance of the *Proprietor's Drawing* account is subtracted from, or added to, the balance of the *Proprietor's Investment* account in order to obtain the actual proprietary interest in the business:

Illustration 1. M. A. Camp, Investment of \$2000; a debit balance in the *M. A. Camp Drawing* account of \$50; a net profit for the period of \$225.

PROPRIETARY INTEREST		
M. A. Camp, Investment		\$2000
M. A. Camp, Drawing		
Net Profit	\$225	
Withdrawals	<u>50</u>	<u>175</u>
Proprietary Interest, Dec. 31		\$2175

Illustration 2. M. A. Camp, Investment of \$2000; a debit balance in the *M. A. Camp Drawing* account of \$278.45; a net profit for the period of \$112.60.

PROPRIETARY INTEREST		
M. A. Camp, Investment		\$2000.00
M. A. Camp, Drawing		
Withdrawals	\$278.45	
Net Profit	<u>112.60</u>	<u>165.85</u>
Proprietary Interest, Dec. 31		\$1834.15

Exercise 34. Oral or Written

INVESTMENT AND DRAWING ACCOUNTS

On a sheet of journal paper, make the journal entries necessary to record the following transactions:

1. On Oct. 1 G. K. Hood began the retail clothing business, investing cash, \$5000.
2. On Oct. 8 he withdrew for personal use merchandise costing \$60. Credit *Merchandise Purchases*.
3. On Oct. 18 he paid cash to the City Grocery Co. for a household bill, \$37.50.
4. On Oct. 26 he withdrew for personal use merchandise costing \$30.
5. The balance of the *Profit and Loss* account on Oct. 31 showed a credit balance of \$185. Make the entry transferring this balance to *Mr. Hood's Drawing* account.
6. Show how the proprietary interest of Mr. Hood would appear in the balance sheet on Oct. 31.

Exercise 35. Written

USE OF NEW ACCOUNTS

From the following trial balance, prepare (1) the profit and loss statement; (2) the balance sheet; (3) the adjusting and closing entries.

R. A. Field
TRIAL BALANCE
Oct. 31, 19—

Cash	\$680	
C. E. Kramer	250	
H. M. Page	360	
Furniture and Furnishings	300	
Fuel Inventory	100	
Office Supplies Inventory	80	
Wells & Co.		\$165
R. A. Field, Investment		2500
R. A. Field, Drawing	85	
—Merchandise Sales		1275
Merchandise Purchases	1860	
Rent Expense	100	
Salary	125	
	<u>\$3940</u>	<u>\$3940</u>
Merchandise Inventory, Oct. 31	\$1030	
Fuel Inventory	85	
Office Supplies Inventory	55	

Classification of Accounts. Assets are property of value belonging to the business, or amounts due the business. The asset accounts already used in this text are *Cash*, accounts with debtors, *Merchandise Inventory*, *Furniture and Furnishings*, *Fuel Inventory*, and *Office Supplies Inventory*.

Liabilities are amounts owed by the business. The liability accounts already used in this text are the accounts with creditors, the persons from whom merchandise has been purchased on account.

Proprietary interest is the net worth of a business at a definite time, the excess of assets over liabilities. The proprietary-interest accounts already used in this text are the *Proprietor's Investment* account, the *Proprietor's Drawing* account, and the *Profit and Loss* account.

Income accounts record the income received by the business, the source of the profits. *Merchandise Sales* is the only income account already considered in this text.

Expense accounts record the amount spent with the object of earning a profit. The expense accounts already considered are *Merchandise Purchases*, *Rent Expense*, *Salary*, *Fuel*, and *Office Supplies*.

These five kinds, or divisions, of accounts—assets, liabilities, proprietary interest, income, and expense—are fundamental and basic. Any account used to record the debit or credit of any business transaction may be recorded under one of these main, general groups.

A *classification of accounts* for any business is a list of the accounts used in that business grouped according to the main divisions to which the accounts belong.

A study of the accounts appearing in the balance sheet, the report form on page 37, the account form on page 38, shows that they belong to the three groups of assets, liabilities, and proprietary interest. A study of the accounts appearing in the profit and loss statement, page 35, shows that they belong to the two groups of income and expense. All classifications of accounts used in this text are arranged in this order—assets, liabilities, proprietary interest, income, and expense—because accounts of a like nature thus grouped together facilitate the making of the balance sheet and the profit and loss statement. It is one of the marks of a good bookkeeper to have his accounts arranged in the ledger in a definite, systematic manner.

The *Merchandise Sales* account is classified as an income account because it includes the gross profit on goods sold. The *Merchandise Purchases* account is classified as an expense account because it records the expenditure for merchandise purchased and after considering the inventories shows as its balance the cost of goods sold.

If but one account is kept with the proprietor of a business, it is classified as a proprietary-interest account—the same as though both an *Investment* and a *Drawing* account were kept.

The *Profit and Loss* account is classified as a proprietary-interest account because it is a temporary account, the balance of which is carried immediately to the *Proprietor's Drawing* account.

The following is a classification of the accounts which would appear upon the ledger of R. A. Field (after closing), the trial balance of which is given on page 80:

ASSETS	PROPRIETARY INTEREST
Cash	R. A. Field, Investment
C. E. Kramer	R. A. Field, Drawing
H. M. Page	Profit and Loss
Merchandise Inventory	
Furniture and Furnishings	INCOME
Fuel Inventory	Merchandise Sales
Office Supplies Inventory	
	EXPENSE
	Merchandise Purchases
	Rent Expense
	Salary
	Fuel
	Office Supplies
LIABILITIES	
Wells & Co.	

Real and Nominal Accounts. The accounts of a business are also classified in another way into *real accounts* and *nominal accounts*.

Real Accounts. Real accounts are those which record actual values; upon the books of a concern they represent values owned or owed. These accounts record pure exchange transactions in the kind of goods owned or owed, and they appear on the balance sheet taken at the end of a period to show the financial condition of the business. From this definition it is clear that the real accounts of a business include assets, liabilities, and proprietary-interest accounts. To illustrate, the real accounts appearing on the ledger of R. A. Field, referred to above, are *Cash*; *C. E. Kramer*; *H. M. Page*; *Merchandise Inventory*; *Furniture and Furnishings*; *Fuel Inventory*; *Office Supplies Inventory*; *Wells & Co.*; *R. A. Field, Investment*; *R. A. Field, Drawing*; *Profit and Loss*.

Nominal Accounts. Nominal accounts are those accounts which record the sources and amounts of income and the purposes and amounts of expenses. They are the accounts necessary for the conduct of the business and represent profit and loss transactions. Nominal accounts are closed into the *Profit and Loss* account, at the end of each period. From this definition it is clear that the nominal accounts of a business include the income and expense accounts.

In order to facilitate the making of statements, the real accounts appear first in the general ledger and are followed by the nominal accounts.

Inasmuch as expenses and losses have the effect of decreasing proprietary interest and income and profits have the effect of increasing

proprietary interest, nominal accounts are clearly those accounts which represent increases or decreases in proprietary interest. To illustrate, the nominal accounts appearing on the ledger of R. A. Field, referred to above, are *Merchandise Sales*, *Merchandise Purchases*, *Rent Expense*, *Salary*, *Fuel*, and *Office Supplies*.

Exercise 36. Oral or Written

CLASSIFICATION OF ACCOUNTS

1. *a.* Classify the accounts opened on the ledger of A. M. Bond, pages 24 and 25, as to assets, liabilities, proprietary interest, income, and expense.

b. Which of these accounts are real and which are nominal?

2. Name the real and nominal accounts, classifying each account by the kind of real account (asset, liability, or proprietary interest) and by the kind of nominal account (income or expense) in Exercise 28.

3. Which of the accounts just classified in question 2 show debit balances and which credit balances?

4. Classify the accounts in the trial balances in Exercise 30 as to assets, liabilities, proprietary interest, income, and expense.

Arrange the accounts and amounts of the problems below in trial-balance form, according to the order used in this text:

5. *A. L. Lane*, *Investment*, \$2000; *Cash*, \$590; *A. L. Lane*, *Drawing*, Dr. Balance, \$70; *Debtors: A. F. Hall*, \$320, *B. H. Sampson*, \$500; *Fuel Inventory*, \$30; *Furniture and Furnishings*, \$400; *Merchandise Purchases*, \$2600; *Merchandise Sales*, \$2100; *Creditors: F. L. Mayo*, \$260, *William Brown*, \$300; *Rent Expense*, \$50; *Salaries*, \$100.

6. *Debtors: F. C. Hughes*, \$368, *H. F. Campbell*, \$450; *Cash*, \$413; *F. L. Ames*, *Investment*, \$1800; *Furniture and Furnishings*, \$275; *Creditors: C. L. Andres*, \$246, *M. B. Hastings*, \$115; *F. L. Ames*, *Drawing*, Cr. Balance, \$125; *Rent Expense*, \$65; *Salaries*, \$150; *Office Supplies Inventory*, \$15; *Merchandise Purchases*, \$2950; *Merchandise Sales*, \$2400.

Summary of Principles of Debit and Credit. Up to this point, the principles of debit and credit have been based upon the idea of values received and values parted with. In the following summary the principles of debit and credit are based upon the idea of increases and decreases in assets, liabilities, and proprietary interest. These two ideas are not contradictory but are merely different ways of expressing the principles of debit and credit. To illustrate, when cash is received (a value received), the asset *Cash* is increased, or when a note is issued (a value parted with), the liability *Notes Payable* is increased.

A summary of the debits and credits for each account used up to this point is as follows :

Cash is debited for all cash received (increase in an asset) ; is credited for all cash paid out (decrease in an asset).

Accounts Receivable (accounts with debtors) are debited for all goods sold on account (increase in an asset) ; are credited for all payments received on account (decrease in an asset).

Accounts Receivable is a collective term which includes all the personal accounts that show the amounts owed to the business.

Merchandise Inventory is debited for the value of goods on hand at the close of a period (increase in an asset) ; is credited at the end of the period for the value of the goods on hand at the beginning of the period (decrease in an asset). (This credit is explained in detail on page 188.)

Furniture and Furnishings is debited for the cost of furniture and furnishings bought (increase in an asset).

Until otherwise stated *Furniture and Furnishings* will be inventoried at cost price.

Office Supplies Inventory is debited for the cost of office supplies purchased during a period (increase in an asset) ; is credited for the cost of office supplies which have been used during a period (decrease in an asset).

Fuel Inventory is debited for the cost of fuel purchased during a period (increase in an asset) ; is credited for the cost of fuel which has been used during a period (decrease in an asset).

Accounts Payable (accounts with creditors) are credited for goods bought on account (increase in a liability) ; are debited for payments made on account (decrease in a liability).

Accounts Payable is a collective term which includes all the personal accounts that show the amounts owed by the business.

Proprietor's Investment account is credited for investment (increase in proprietary interest).

If the proprietor withdraws a portion of his investment, the *Proprietor's Investment* account would be debited for the amount withdrawn (decrease in proprietary interest).

Proprietor's Drawing account is credited for the net profit at the close of a period (increase in proprietary interest) ; is debited for personal expenses paid, for merchandise taken by the proprietor, for the net loss at the close of a period (decrease in proprietary interest).

Profit and Loss is credited for the gross profit on merchandise sales (an increase in proprietary interest) ; is debited for all expenses (decreases in proprietary interest).

If a gross loss is incurred on merchandise sales, it is debited to *Profit and Loss* (a decrease in proprietary interest).

If the credit to *Profit and Loss* exceeds the debits, the difference is the net profit and is transferred to the credit of the *Proprietor's Drawing* account (an increase in proprietary interest).

If the debits to *Profit and Loss* exceed the credit, the difference is the net loss and is transferred to the debit of the *Proprietor's Drawing* account (a decrease in proprietary interest).

The income and expense accounts are sometimes called *temporary proprietary-interest* accounts since they record the causes for the changes in the proprietary interest during a given period. The net effect of income accounts is to record increases in proprietary interest, and the net effect of expense accounts is to record decreases in proprietary interest.

From the above it is seen that the appropriate account is debited

- (a) for an *increase* in an *asset*;
- (b) for a *decrease* in a *liability*;
- (c) for a *decrease* in *proprietary interest* resulting from either a withdrawal by the proprietor or from operating expenses.

The appropriate account is credited

- (a) for a *decrease* in an *asset*;
- (b) for an *increase* in a *liability*;
- (c) for an *increase* in *proprietary interest* resulting from an additional investment by the proprietor or from income.

Exercise 37. Oral

PRINCIPLES OF DEBIT AND CREDIT

1. State whether each account named would be debited or credited according to the information given in the following list:

- a. An increase in *Cash*.
- b. A decrease in *Accounts Payable*.
- c. An increase in *Accounts Receivable*.
- d. A decrease in the *Proprietor's Drawing* account.
- e. A decrease in *Cash*.
- f. An increase in *Merchandise Purchases*.
- g. An increase in *Merchandise Sales*.
- h. An increase in the *Proprietor's Investment* account.

2. Would the following decreases in proprietary interest be recorded as debits or credits: rent paid, salaries paid, fuel used, office supplies used?

3. On page 39 the following equations were given:

$$\begin{aligned}\text{Assets} - \text{Liabilities} &= \text{Proprietary Interest} \\ \text{Assets} &= \text{Liabilities} + \text{Proprietary Interest}\end{aligned}$$

Remembering these equations, answer the following questions:

- a. If assets increase, does it necessarily mean that the proprietary interest has also increased?

b. If assets decrease, does it necessarily mean that the proprietary interest has also decreased?

c. If liabilities decrease, does it necessarily mean that the proprietary interest has increased?

d. If liabilities increase, does it necessarily mean that the proprietary interest has decreased?

4. Supply the one word missing in each of the sentences given below :

a. If assets decrease and liabilities increase, proprietary interest —.

b. If assets increase and liabilities decrease, proprietary interest —.

c. If assets decrease and liabilities decrease more than the assets, proprietary interest —.

d. If assets increase and liabilities increase more than the assets, proprietary interest —.

The balance sheets of C. M. Barr at the beginning and close of a month are as follows :

ASSETS	June 1	June 30
Cash	\$1000	\$1250
Accounts Receivable	2500	2800
Merchandise Inventory	4500	4000
Office Supplies Inventory	<u>50</u>	<u>60</u>
Total Assets	\$8050	\$8110
LIABILITIES		
Accounts Payable	<u>850</u>	<u>1100</u>
PROPRIETARY INTEREST		
C. M. Barr, Investment	\$7000	\$7000
C. M. Barr, Drawing	<u>200</u>	<u>10</u>
Total Proprietary Interest	<u>\$7200</u>	<u>\$7010</u>

5. Using amounts from the above statements, state why the proprietary interest is less on June 30 than on June 1 even though the assets on June 30 are \$60 more than they were on June 1.

6. Does Mr. Barr owe creditors more or less on June 30 than he did on June 1?

7. Do customers owe Mr. Barr more or less on June 30 than they did on June 1?

8. Does an increase in cash necessarily mean an increase in proprietary interest?

9. Does a decrease in cash necessarily mean a decrease in proprietary interest?

10. Does a net profit for a period increase or decrease proprietary interest?

Exercise 38. Oral

TOPICS FOR CLASS DISCUSSION

1. Explain the difference as to bookkeeping treatment between a merchant's paying cash for the rent of a store building for a month and his paying cash for 15 tons of coal which he believes will last four months.

2. Explain the difference as to bookkeeping treatment between this merchant's paying \$18 in cash to a clerk for a week's wages and his paying \$60 in cash for office supplies estimated to last six months.

3. What is the purpose of a *Proprietor's Investment* account?

4. What is the purpose of a *Proprietor's Drawing* account?

5. State how the balances of the *Investment* account and the *Drawing* account would appear in a balance sheet.

6. What is meant by a classification of accounts?

7. Define *assets* and mention some of the asset accounts already used in this text.

8. Define *liabilities* and mention some of the liability accounts already used in this text.

9. Define *proprietary interest* and mention some of the proprietary-interest accounts already used in this text.

10. Define *income* and mention some of the income accounts already used in this text.

11. Define *expense* and mention some of the expense accounts already used in this text.

12. Define *real accounts* and mention some of the real accounts already used in this text.

13. Define *nominal accounts* and mention some of the nominal accounts already used in this text.

14. Summarize the principles of debit and credit, based upon the idea of increases and decreases in assets, liabilities, and proprietary interest, for the following accounts:

Cash

Accounts Receivable

Office Supplies Inventory

Accounts Payable

Proprietor, Investment

Proprietor, Drawing

15. Why are income and expense accounts sometimes called *temporary proprietary-interest accounts*?

16. State when an account is debited, based upon the idea of increases and decreases in assets, liabilities, and proprietary interest.

17. State when an account is credited, based upon the idea of increases and decreases in assets, liabilities, and proprietary interest.

CHAPTER VIII

LOCATING AND CORRECTING ERRORS

Errors in the Trial Balance. A trial balance, as previously explained, is a list of the names and amounts of the open ledger accounts made periodically to check the accuracy of the bookkeeping work. If no clerical errors have been made, the total of the debit column of the trial balance will be the same as the total of the credit column, in which case the trial balance is said to balance.

The trial balance is not an absolute check upon the accuracy of the postings. That the trial balance balances does not mean that the proper amounts have been posted to the debit or credit of the proper accounts.

The trial balance will not balance

- (a) if any error has been made in addition or subtraction ;
- (b) if only the debit or the credit of an entry has been posted to the ledger ;
- (c) if a debit is posted to the credit side of the ledger, or vice versa ;
- (d) if the balance of an account has been omitted from the trial balance ;
- (e) if there has been a transposition of figures ; that is, an interchange of figures, as 95 for 59 ; 639 for 693 ; etc.
- (f) if there has been a transplacement of the decimal point, as \$6250 for \$62.50 ; \$6783 for \$67.83.

Locating Errors in the Trial Balance. No absolutely fixed procedure can be outlined for locating the difference between the trial-balance totals. The procedure always depends on the conditions in a particular case.

To locate an error in the trial balance it is advisable to subtract the smaller side from the larger to determine the amount of the difference. If the difference is \$0.01, \$0.10, \$1, \$10, \$100, \$1000, \$10,000, the error very likely is in either the addition of the trial balance or in obtaining the balances of the accounts. To locate an error of this nature the trial balance should be re-added and the balances of the ledger accounts verified.

If no error in addition or subtraction has been found, look through the entries in the journal for an amount equal to the amount of the difference, which amount may have been posted only to one side of the ledger. If no amount equal to the difference is found, divide the difference by two and again look through the journal for this amount,

which may have been posted twice to the same side of the ledger. For example, if John Smith pays \$150 on account, the entry would be:

Cash	Jan. 3, 19—	150	—	150	—
John Smith					

If in posting to *John Smith's* account the above amount were posted to the debit side instead of to the credit, the trial balance would be out of balance by \$300, because a credit of \$150 was omitted and an additional debit of \$150 was made, making a total error of \$300.

The account appears as follows:

JOHN SMITH

19—											
Dec.	12	J.	16	150	—						
19—											
Jan.	3	J.	18	150	—						

If the difference is not found by any of the previous tests, check the trial balance with the open accounts on the ledger to ascertain whether any of the balances have been omitted or entered on the wrong side of the trial balance.

If the difference between the two sides of the trial balance is divisible by 9, it is possible that some of the figures have been transposed. For example, assume that the debit side of the trial balance is \$45 larger than the credit side; that the balance of the *Salaries* account is \$649.50; and that, when transferred to the trial balance, it was written \$694.50. The difference between \$694.50 and \$649.50 is \$45, which would account for the difference in the trial balance.

To locate an error of this kind, the posting should be checked systematically. It is better in checking postings to check from the ledger account to the journal entry, rather than from the journal entry to the ledger account. To illustrate the procedure in checking the postings, the following *Cash* account will be checked:

CASH

19—						19—					
Jan.	2	J.	12	2000	—	Jan.	3	J.	12	60	—
	8	J.	13	300	—		4	J.	12	100	—
	12	J.	13	360	—		5	J.	12	1000	—
	16	J.	14	270	—		6	J.	12	18	—
							11	J.	13	660	—
							13	J.	13	18	—
							17	J.	14	600	—

The first amount on the debit side of the *Cash* account is taken first and traced to the journal. A small check mark (✓) is placed to the right of the amount in the ledger on the line as each amount is considered. This amount is then located in the journal, and, when found, a small check mark (✓) is placed to the right of it.

Each item of the *Cash* account is checked with its corresponding amount in the journal. After all the amounts in the ledger have been checked to the journal, any unchecked items in the journal would indicate that they had not been posted.

To be of value, checking must be done systematically and each amount must be carefully scrutinized.

The *Cash* account, after being checked, would appear as follows:

CASH

19—						19—						
Jan.	2	J.	12	2000	—✓	Jan.	3	J.	12	60	—✓	
	8	J.	13	300	—✓		4	J.	12	100	—✓	
	12	J.	13	360	—✓		5	J.	12	1000	—✓	
	16	J.	14	270	—✓		6	J.	12	18	—✓	
							11	J.	13	660	—✓	
							13	J.	13	18	—✓	
							17	J.	14	600	—✓	

The first entry in the journal, after being checked, would appear as below:

JAN. 2, 19—

		A. M. Bond this day began the whole-sale shoe business, investing cash, \$2000										
		Cash				2000	—✓			2000	—✓	
		A. M. Bond, Investment										
		To record investment of A. M. Bond.										

If the difference between the sides of the trial balance is divisible by 11, the error may be the result of a misplaced decimal point shifted two places to the right or left. If, for example, an amount should be \$67.50 and is written \$6750, the difference is \$6682.50, which is exactly divisible by 11. Errors of transplacement, like errors of transposition, are found by checking the postings.

Corrections and Correcting Entries. As an illustration of correcting an error in the ledger, the account of *John Smith* on page 89 will be used. The error made, posting a credit as a debit, may be corrected by drawing a single line through the incorrect amount on the debit side of the ledger and writing the amount on the credit side. This line

need be drawn only through the amount, thus not greatly detracting from the appearance of the page. The account would then appear as follows:

JOHN SMITH

19—						19—					
Dec.	12	J.	16	150	—	Jan.	3	J.	18	150	—
19—											
Jan.	3	J.	18	150	—						

An eraser should never be used in a set of bookkeeping books. If an error has been made, it is better to leave the incorrect figures on the books; so that if any question comes up later, all the figures will be available for reference. Suspicion of any intentional wrongdoing is thus avoided.

An error in transposition may be corrected by drawing a single line (in red ink or black ink) through the incorrect amount and writing above it the correct amount. This is illustrated in the following *Cash* account:

CASH

19—						19—					
Sept.	1	J.	1	5000	—	Sept.	2	J.	1	450	—
	5	J.	2	750	—					580	—
							9	J.	4	500	—

If incorrect figures are on the books, the correct figures should never be written over the incorrect ones, but a single line should be drawn through the entire amount and the correct amount written above it.

Some errors may be corrected through journal entries called *correcting entries*. For example, assume that B. K. Jones paid \$100 which was entered in the journal correctly but was posted to the credit of B. M. Jones's account instead of to B. K. Jones's account. This resulted in an error in the accounts of both B. K. Jones and B. M. Jones.

To correct this error, the following entry may be made:

	7				
B. M. Jones		100	—		
B. K. Jones				100	—
To correct posting of entry of Jan. 4,					
in which B. M. Jones's account was					
credited instead of B. K. Jones's.					

By using journal entries to correct errors, both accounts affected are shown together and the explanation for the correction furnishes a permanent record of the reason for the change.

Another error which may be corrected by a journal entry is illustrated by the following:

Jan. 2, 19—. Received of William Smith cash, in payment of invoice of Dec. 22, 19—, \$500.

Assume that the following entries were made in the journal:

	2				
Cash		500	—		
Merchandise Sales				500	—
Cash received in payment of invoice					
of Dec. 22.					

In making this entry, *Merchandise Sales* account was incorrectly credited for the amount of the cash received.

The following entry may be made to correct the error:

	31				
Merchandise Sales		500	—		
William Smith				500	—
To correct the entry of Jan. 2, in					
which <i>Merchandise Sales</i> was credited					
instead of <i>William Smith</i> .					

Wherever possible, errors should be corrected by journal entries because of the clear and definite explanations which may be made in the journal for such entries.

Exercise 39. Written

CORRECTIONS AND CORRECTING ENTRIES

The following journal entries and ledger accounts are taken from the books of William Bronson for the month of March. Copy on a sheet of journal paper and ledger paper and prepare a trial balance. Explanations and folios are omitted.

MARCH 1, 19—

Cash	2000	—			
William Bronson, Investment			2000	—	
2					
Merchandise Purchases	1110	—			
Cash			1110	—	
4					
Cash	260	—			
Merchandise Sales			260	—	

	5			
Merchandise Purchases J. L. Martin		540 —		540 —
Cash	10	325 —		
Merchandise Sales				325 —
Salary	15	40 —		
Cash				40 —
J. L. Martin	18	540 —		
Cash				540 —
Cash	19	200 —		
M. L. Davis				200 —
Merchandise Purchases C. F. Allen	22	435 —		435 —
M. A. Taylor	25	330 —		
Merchandise Sales				330 —
Cash	30	125 —		
M. L. Davis				125 —
J. S. Wilder	31	450 —		
Merchandise Sales				450 —
Salary	31	40 —		
Cash				40 —

CASH

19—				19—			
Mar.				Mar.			
1			2000	2			1110
4			260	15			40
10			325	18			5 40
19			200	31			40
30			125				
			2410				1195 40

M. L. DAVIS

[illegible]

M. A. TAYLOR

[illegible]

J. S. WILDER

19— Mar.	31			450	—					
-------------	----	--	--	-----	---	--	--	--	--	--

C. F. ALLEN

19										
Mar.	22			435	—					

J. L. MARTIN

19— Mar.	18			504	—	19— Mar.	5			540	—
-------------	----	--	--	-----	---	-------------	---	--	--	-----	---

WILLIAM BRONSON, INVESTMENT

[illegible]

MERCHANDISE SALES

[illegible]

MERCHANDISE PURCHASES

19—										
Mar.	2		1110	—						
	5		540	—						
	22		435	—						
			2085							

SALARY

Mar.	15			40	—					
	31			40	—					

The transactions from which these records were made were as follows:

March 1, 19—. William Bronson began business, investing cash, \$2000.

2. Bought of L. A. Porter, for cash, merchandise, \$1110.
4. Sold A. L. Chase, for cash, merchandise, \$260.
5. Bought of J. L. Martin, at 15 da., merchandise, \$540.
10. Sold M. L. Davis, at 20 da., merchandise, \$325.
15. Paid R. A. King, a clerk, cash, for services to date, \$40.
18. Paid J. L. Martin cash, in full of account, \$540.
19. Received of M. L. Davis cash, to apply on account, \$200.
22. Bought of C. F. Allen, at 10 da., merchandise, \$435.
25. Sold M. A. Taylor, at 10 da., merchandise, \$330.
30. Received of M. L. Davis cash, in full of account, \$125.
31. Sold J. S. Wilder, at 15 da., merchandise, \$450.
31. Paid R. A. King cash, for services to date, \$40.

Several errors were made in recording the transactions and in posting them, and you are asked to make all necessary corrections in both the journal and the ledger in accordance with the rules given in this chapter.

After you have corrected the errors, prepare a corrected trial balance.

Exercise 40. Oral

TOPICS FOR CLASS DISCUSSION

1. What may cause a difference between the sides of a trial balance?
2. An error of \$0.01, \$0.10, or \$10 may mean what?
3. Suppose the debit side of a trial balance were \$680 larger than the credit side. What tests would you apply in trying to locate the error?
4. Suppose the credit side of a trial balance were \$630 larger than the debit side. What kind of an error would you look for?
5. Assume that the credit side of the ledger were \$9988.22 larger than the debit side. What kind of an error would you look for?
6. What is meant by *checking postings*?
7. Assume that office supplies had been purchased amounting to \$98.50, and that in the journal this amount had been debited to *Merchandise Purchases* and had been posted to this account. What error has been made? What journal entry would be necessary to make the correction?
8. Why should an eraser not be used in a set of books?

CHAPTER IX

SET I. WHOLESALE FURNITURE BUSINESS

Object of Set. The object of this set, or series of business transactions, is to illustrate in a simple, practical manner the principles discussed up to this point. The student is assumed to be acting as bookkeeper for the business.

Books Used. The transactions of this set are to be recorded in blank books which are similar to the books which might be kept in actual business. The books to be used are the journal and the ledger. The journal is in Blank A ; the ledger in Blank B.

In recording the transactions, great care should be taken in making the entries so that errors may be reduced to a minimum. In case of an error, the correction should be made in accordance with the suggestions stated in Chapter VIII. *In no case* should any amount entered in the books be erased.

Frequent reference should be made to the model journal and model ledger, as they are in accord with the best practice as to form of entry, size of figures, and general appearance.

Open accounts in the ledger, Blank B, four accounts on each page, for the following accounts :

1 Cash ¹	12 H. A. Miller, Investment
Accounts Receivable ²	13 H. A. Miller, Drawing
2 Benton & Son, Creston, Iowa	14 Profit and Loss
3 Wm. Johnson, Ames, Iowa	15 Merchandise Sales
4 A. R. Keller, Newton, Iowa	16 Merchandise Purchases
5 Merchandise Inventory	17 Rent Expense
6 Furniture and Furnishings	18 Salaries
7 Fuel Inventory	19 Fuel
8 Office Supplies Inventory	20 Office Supplies
9 Accounts Payable ³	
10 Gordon & Co., St. Louis, Mo.	
11 Moore Furniture Co., Sheboygan, Wis.	
12 John D. Rice, Chicago, Ill.	

¹ Allow fifteen lines for the *Cash* account.

² *Accounts Receivable* are the personal accounts that show the amounts owed to the business. Do not write *Accounts Receivable* in the ledger. These are the personal accounts in which the debit side is the larger.

³ *Accounts Payable* are the personal accounts that show the amounts owed by the business. Do not write *Accounts Payable* in the ledger. These are the personal accounts in which the credit side is the larger. The *Proprietor's* account is not included with *Accounts Payable*.

In opening the ledger the accounts are arranged in the order in which they will be used in preparing the balance sheet and the profit and loss statement.

MEMORANDA OF TRANSACTIONS FOR FEBRUARY

Feb. 1. H. A. Miller, Des Moines, Iowa, began the wholesale furniture business, investing cash, \$3000.

2. Paid A. D. Blake cash, for rent of store for month, \$80.

2. Bought of Sayles & Jones, Davenport, Iowa, for cash :

15 Oak Dining Tables @ \$18.75

36 Dining Chairs @ 108.00

10 Library Tables @ 33.75

The unit price for dining chairs is "per dozen."

3. Bought of Mason & Co., City, for cash, stationery and office supplies, \$23.50.

4. Bought of Wilson Fuel Co., City, for cash :

7 tons Coal @ \$15.00

5. Sold to W. S. Wall, Boone, Iowa, for cash :

4 Oak Dining Tables @ \$25.00

3 Library Tables @ 47.00

6. Bought of Chas. M. Gray, Chicago, for cash, office furniture, \$125.

This office furniture is purchased for use in the store, not for resale, so that it should be debited to *Furniture and Furnishings*.

Post the entries made in the journal to the appropriate ledger accounts.

9. Sold Wm. Johnson, Ames, Iowa, at 20 da. :

4 Oak Dining Tables @ \$25.00

3 Library Tables @ 47.00

12 Dining Chairs @ 162.00

10. H. A. Miller took from the business for personal use 1 Library Table costing \$33.75.

Credit Merchandise Purchases.

11. Bought of John D. Rice, Chicago, Ill., at 10 da. :

5 Oak Dining Tables @ \$22.50

12 Oak Bookcases @ 12.50

6 Oak Writing Desks @ 18.50

13. Sold D. A. Brown, Fort Dodge, Iowa, for cash :

6 Oak Bookcases @ \$18.00

2 Oak Dining Tables @ 33.00

Post the journal entries made during the week.

15. Bought of Moore Furniture Co., Sheboygan, Wis., at 15 da.:

2 Complete Dining Room Sets @ \$200.00

16. Paid John D. Rice cash, to apply on account, \$200.

17. Received of William Johnson cash, to apply on account, \$100.

18. Paid Mills & Co. cash, for household bill of H. A. Miller, \$30.

19. Sold A. R. Keller, Newton, Iowa, at 15 da.:

3 Oak Dining Tables @ \$33.00

12 Dining Chairs @ 162.00

1 Complete Dining Room Set @ 300.00

20. Paid John D. Rice cash, in full of account, \$173.50.

Post the week's work.

23. Bought of Boyd & Co., Grand Rapids, Mich., for cash:

3 Oak Sideboards @ \$110.00

24. Paid Moore Furniture Co. cash, in full of account, \$400.

25. Sold Benton & Son, Creston, Iowa, at 10 da.:

1 Oak Sideboard @ \$160.00

26. Bought of Gordon & Co., St. Louis, Mo. at 10 da.:

4 Rockers @ \$35.00

27. Paid Student cash, for services to date, \$60.

27. H. A. Miller took from the business cash, for his monthly salary, \$125.

Complete the posting of the journal.

Inventories, Feb. 28, 19—

Merchandise

7 Oak Dining Tables @ \$18.75	\$131.25	
12 Dining Chairs @ \$108	108.00	
3 Library Tables @ \$33.75	101.25	
6 Oak Bookcases @ \$12.50	75.00	
6 Oak Writing Desks @ \$18.50	111.00	
1 Complete Dining-room Set @ \$200	200.00	
2 Oak Sideboards @ \$110	220.00	
4 Rockers @ \$35	<u>140.00</u>	\$1086.50
Office Furniture		125.00
Fuel		
4 tons of Coal @ \$15		60.00
Office Supplies		
Unused supplies		8.50

Closing the Set. Foot the debits and credits in each ledger account in pencil, making small figures.

Take a trial balance of the ledger, omitting all accounts that balance. Record it in Blank A, on the page indicated by the index.

It may be advisable to have the trial balance taken and checked on loose sheets of paper before it is recorded in the bound book.

Hand the books to the instructor for inspection and approval.

Make the profit and loss statement, showing the net profit.

Make the balance sheet, showing the present worth or proprietary interest.

Record the statements in Blank A on the page indicated by the index.

Close the ledger.

Be certain that you have made and posted the adjusting entries involving the *Office Supplies Inventory* and the *Fuel Inventory* accounts.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

CHAPTER X

NOTES

In the previous chapters sales and purchases on account have been considered,— transactions in which oral promises or mere agreements to pay are received or given. These oral promises are represented by accounts with the names of the persons from whom these oral promises were received, or to whom given.

Promissory Notes. Oral promises or agreements to pay of this sort should be distinguished from written promises to pay, which are called *promissory notes* or sometimes *notes*.

Written promises to pay are divided into two classes, as follows:

1. Written promises to pay others made by a person or business, which are called *notes payable*.
2. Written promises made by others to pay a person or business, which are called *notes receivable*.

On page 101 is a written promise to pay \$1000 in 30 da., made by A. M. Bond and given to A. F. Thayer & Co.

This note is a *note payable* of A. M. Bond and a *note receivable* of A. F. Thayer & Co.

The person making the written promise to pay is called the *maker*; the person to whom payment is to be made is called the *payee*. In the note illustrated on the next page, A. M. Bond is the maker and A. F. Thayer & Co. is the payee.

Advantages of Notes. The advantages of written promises over oral promises or mere agreements are as follows:

1. A written promise is a written acknowledgment of indebtedness.
2. A written promise may be more readily transferred from one party to another.

Negotiable Instruments. A promissory note to be readily transferable from person to person must be

- (a) in writing and signed by the maker;
- (b) an unconditional promise to pay a sum certain in money;
- (c) payable on demand or at a fixed future date;
- (d) payable to the order of a specified person or to bearer.

These requirements are called the *elements of negotiability*, and any note or written contract obligation which contains these elements is called a *negotiable instrument*.

\$1000 ⁰⁰	BOSTON, MASS.	March 2 19--
Thirty days	AFTER DATE	I PROMISE TO PAY TO
THE ORDER OF	A. F. Thayer & Co.	
One thousand ⁰⁰ / ₁₀₀	DOLLARS	
AT	First National Bank	
VALUE RECEIVED		
No. 15	DUE	April 1, 19--
	A. M. Bond	

A PROMISSORY NOTE

Indorsement. The holder of a note which contains the above requisites may transfer it by signing his name on the back of the note and giving it to the person to whom it is transferred. The writing of one's name on the back of a negotiable instrument with the intent to transfer the title or to assume legal responsibility for its payment is called *indorsement*.

The object of indorsement is to effect a transfer of the title, or to make the indorser liable for payment under certain conditions, or both, or to act as a receipt. Indorsements should be made on the back of the negotiable paper in accordance with the following form:

Pay to the order of National Union Bank Charles H. Chase	TON, MASS.	March 29, 19--
	TER DATE	I PROMISE TO PAY TO
	H. Chase	
	DOLLARS	
	William C. Chetwood	

AN INDORSED NOTE

When the signature is the name of a firm, the name or the initials of the person writing the signature may be written just underneath.

Indorsements are made by using a rubber stamp or by writing.

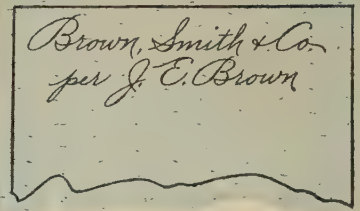
Forms of Indorsements. The indorsements most commonly used are the *special*, or *full*, the *blank*, the *qualified*, and the *restrictive*.

A *special*, or *full*, indorsement names the indorsee, the person to whom the note is payable upon indorsement; the instrument cannot again be negotiated without the indorsee's indorsement. This form is the one most commonly used in business. A *special*, or *full*, indorsement is illustrated on this page.

A *blank indorsement* names no indorsee but consists merely of writing the name of the payee on the back of the paper. A *blank indorsement*, illustrated on this page, may best be used when one has a check cashed at the bank, as the check will then be canceled.

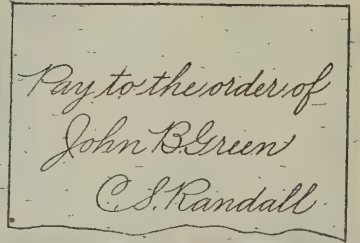
A *qualified indorsement* passes title without rendering the indorser liable for payment. This indorsement may be either in *blank* or *special*.

An indorsement of this kind is not often used because it relieves the indorser of the responsibility for payment in case the maker does not pay.



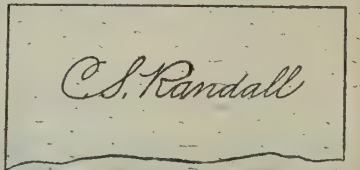
Brown, Smith & Co.
per J. E. Brown

A FIRM SIGNATURE



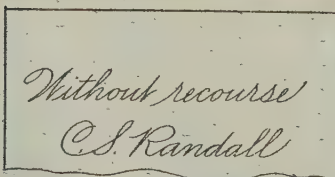
Pay to the order of
John B. Green
C. S. Randall

A SPECIAL INDORSEMENT

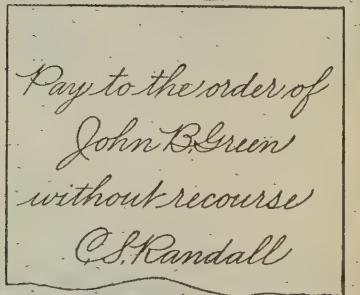


C. S. Randall

A BLANK INDORSEMENT



Without recourse
C. S. Randall

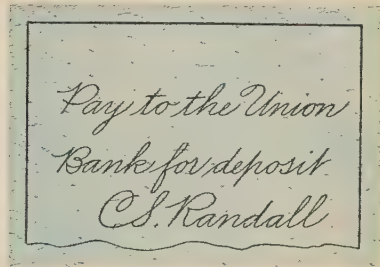


Pay to the order of
John B. Green
without recourse
C. S. Randall

QUALIFIED INDORSEMENTS

A *restrictive indorsement* makes the indorsee an agent of the indorser, usually for the collection of the paper by a bank. This form of indorsement is not commended by banks and clearing houses.

All commercial paper offered for deposit at a bank must be indorsed, and the special, or full, indorsement is most commonly used. This form is a protection to the lawful holder because the payee is named, and payment will be made only on his order, by indorsement. If a check or note bearing a special indorsement is lost or stolen, it is valueless to the holder.



A RESTRICTIVE INDORSEMENT

Interest-Bearing Note. If a note bears interest (discussed in Chapter XI), it must be so stated in the note, and it is excellent business practice always to name the rate; that is, instead of writing "with interest," write "with interest at 6%."

None of the notes referred to in this chapter bear interest.

Recording of Notes Payable. *Note given for borrowed money:*

On June 16, 19—, A. M. Bond borrowed \$500 from L. A. Sayle, City, and gave him a written promise dated June 16, due in 10 da. The value received is the cash; the value parted with is the note payable. The entry would be as follows:

16			
Cash	500	—	
Notes Payable			500
Borrowed \$500 from L. A. Sayle and gave him my note dated today, due in 10 da.			

Note given as a payment on account:

On June 6, A. M. Bond bought goods from New Town Shoe Co., on account, to the value of \$900. The entry made at that time was as follows:

6			
Merchandise Purchases	900	—	
New Town Shoe Co.			900
Shoes bought on account.			

On June 16 the New Town Shoe Co. request a note in settlement of the account, and on June 18 a note due in 30 da. is sent to them.

When the goods were bought, an oral promise, or mere agreement, to pay for the shoes was given to the New Town Shoe Co. This oral

promise was represented by the account *New Town Shoe Co.* The written promise, which is now given, cancels the oral promise. The value received is the cancellation of the oral promise, and this value would therefore be debited to the *New Town Shoe Co.*, the account representing the oral promise. The value parted with is a note payable. The following entry would be made to record this transaction :

	18			
New Town Shoe Co.		900	—	
Notes Payable				900 —
Gave the New Town Shoe Co. my note dated today, due in 30 da., in full of account.				

Sometimes cash is paid for a part of the account and a note is given for the balance of the account. Thus, if in the above transaction Mr. Bond had sent the New Town Shoe Co. a check for \$250 and a note, due in 30 da., for the remaining \$650, the journal entry would have been as follows :

New Town Shoe Co.	\$900	
Cash		\$250
Notes Payable		650
Gave a check for \$250 and my note dated today, due in 30 da., in full of account.		

In the above entry the sum of the two credits equals the debit and thus the equality between debits and credits is maintained. An entry which consists of more than one debit or credit, or both, is called a *compound entry*.

An entry which consists of but a single debit item and a single credit item is called a *simple entry*.

Payment of notes payable :

On June 26, 19—, A. M. Bond paid his note for \$500, due today, in favor of L. A. Sayle.

The value received by A. M. Bond is his note, which is returned to him. The *Notes Payable* account is therefore debited. The following entry would be made for this transaction in the journal of A. M. Bond :

	26			
Notes Payable		500	—	
Cash				500 —
Paid my note due today in favor of L. A. Sayle.				

It is seen from the foregoing that the *Notes Payable* account is credited for the written promises given or issued to others and is debited for such of these notes as are paid. If all notes given or issued are not paid, the *Notes Payable* account shows a credit balance.

Recording of Notes Receivable. *Note received for cash loaned :*

On June 12, 19—, A. M. Bond loaned \$300 to R. A. Brown and received his note, due in 10 da. The value received is the note receivable; the value parted with is cash. The entry would be as follows:

	12				
Notes Receivable		300	—		
Cash				300	—
Loaned \$300 to R. A. Brown, and received his note dated today, due in 10 da.					

Note received in payment of account :

On June 10, 19—, A. M. Bond sold to A. R. Rice & Co., City, shoes, at 10 da., \$300. The entry made at that time was as follows:

	10				
A. R. Rice & Co.,		300	—		
Merchandise Sales				300	—
Shoes sold on account at 10 da.					

On June 20, 19—, A. M. Bond receives from A. R. Rice & Co. a note dated June 18, 19—, due in 30 da., with the request that he accept it on account.

When the goods were sold, an oral promise, or mere agreement, to pay was received, which was shown by a debit to *A. R. Rice & Co.'s* account. They are now giving Mr. Bond a written promise to pay in place of the oral promise, and in accepting this written promise Mr. Bond naturally parts with or cancels the oral promise. The value received is the written promise, the note received from A. R. Rice & Co. The value parted with is the oral promise, as represented by *A. R. Rice & Co.'s* account. The entry would be as follows:

	20				
Notes Receivable		300	—		
A. R. Rice & Co.				300	—
Received their note dated June 18, due in 30 da., in full of account.					

If A. R. Rice & Co. had sent a check for \$100 and a note, dated today, due in 30 da., for the remaining \$200, the journal entry would have been as follows:

Cash	\$100	
Notes Receivable	200	
A. R. Rice & Co.		\$300
Received their check for \$100 and their note dated June 18, due in 30 da., in full of account.		

Payment of notes receivable :

On June 22, 19—, A. M. Bond received a check for \$300 from R. A. Brown in payment of his note due today. The value received is cash ; the value parted with is a note receivable.

Cash	22				
Notes Receivable		300	—		
Received payment of R. A. Brown				300	—
for his note due today.					

It is seen from the foregoing that the *Notes Receivable* account is debited for the written promises received from others, and is credited for such of these notes as are paid.

Finding Date of Maturity of Notes. When a note is payable a certain number of days after date, the date of maturity is found by counting that number of days ahead from the date of the note. To illustrate, the maturity of a 60-day note dated June 15 would be found by counting into the future, as follows :

Days remaining in June	15
Days to be taken in July	31
Days to be taken in August	<u>14</u>
Total	60 da.

The date of maturity of this note is therefore Aug. 14.

When the time is expressed in months, calendar months are used to determine the date of maturity. To illustrate, the maturity of a 2-month note dated June 15 would be found by counting 2 months into the future, and the date of maturity is therefore Aug. 15.

Exercise 41. Oral

MATURITY OF NOTES

State the date of maturity for the following notes :

- 1. A note dated Jan. 2, 19—, due in 1 mo. Feb 2
- 2. A note dated Jan. 30, 19—, due in 1 mo. Feb 28
- 3. A note dated Jan. 31, 19—, due in 1 mo. Feb 28
- 4. A note dated Jan. 31, 19—, due in 30 da. Mar 2, 19—
- 5. A note dated Feb. 28, 19—, due in 3 mo. May 2
- 6. A note dated June 10, 19—, due in 6 mo. Dec 10
- 7. A note dated July 20, 19—, due in 90 da. Sept 18
- 8. A note dated Aug. 31, 19—, due in 30 da. Sept 30
- 9. A note dated Dec. 30, 19—, due in 2 mo. Feb 28

Exercise 42. Written

NOTES RECEIVABLE AND NOTES PAYABLE

Use loose journal paper and make the entries for the following transactions taken from the business of B. R. Reed:

Jan. 3, 19—. Borrowed \$1000 from Alfred B. Cole and gave him a note due in 10 da.

9. Received of Benjamin A. Frye cash, in payment of his note due today, \$900.

10. Borrowed \$2000 from R. S. Simms and gave him a note due in 20 da.

11. Received of K. L. Main a note for \$300, dated Jan. 10, 19—, due in 30 da., in payment of his account.

12. Paid M. H. Sommers cash, for our note due today, \$300.

13. Paid Alfred B. Cole cash, for our note due today, \$1000.

14. Received of A. L. Francis cash, in payment of his note due today, \$200.

16. Received of F. K. Blake a note for \$150, dated Jan. 16, due in 1 mo., for goods sold him on Dec. 14.

25. Gave K. S. Sloane a note for \$400, dated today, due in 2 mo., in payment for goods bought on Dec. 20.

28. Received of Benjamin A. Frye cash, in payment of his note due Jan. 29, \$500.

30. Paid R. S. Simms cash, for our note due today, \$2000.

Exercise 43. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *notes, notes payable, notes receivable.*
2. What are the advantages of notes over oral promises?
3. What are the elements of negotiability which a note should contain?
4. Define the following terms: *indorsement, special or full indorsement, blank indorsement, qualified indorsement, restrictive indorsement.*
5. State the entries to be made for each of the following transactions:
 - a. A note is given for borrowed money.
 - b. A note is given as a payment on account.
 - c. A note is received for money loaned.
 - d. A note is received as a payment on account.
6. What is meant by a *compound entry*?
7. State exactly how you would find the maturity date of a 90-day note dated Aug. 10.

$$\begin{array}{r} 21 \\ 30 \\ 31 \\ \hline 82 \end{array}$$

Nov. 8

CHAPTER XI

INTEREST ON NOTES

Definition of Interest. "Interest is the compensation allowed by law or fixed by the parties for the use . . . of money."—HUFFCUT.

In addition to promising to pay a sum of money, called the principal, at maturity, written promises usually provide for the payment of interest. A note which provides for the payment of interest is called an *interest-bearing note*. A note which does not provide for the payment of interest is called a *non-interest bearing note*.

Best business practice requires that the rate of interest to be paid should be specified on the face of the note. If no rate is specified, the legal rate of the state in which the note is signed is understood.

Interest-Bearing Notes Payable. Assume that on March 5 Stevens & Co. sent William Small a note due in 30 da., with interest at 6%, in full of account, \$6000. This note appears as follows:

\$6000 ¹⁰⁰	DENVER, COLORADO	March 5, 19__
Thirty days	AFTER DATE	PROMISE TO PAY TO
THE ORDER OF	William Small	
Six thousand ¹⁰⁰	DOLLARS	
AT	First National Bank with interest at 6%	
VALUE RECEIVED		
No. 35	DUE	April 4, 19__
	Stevens & Co	

AN INTEREST-BEARING NOTE

The entry made at the time the note is given is as follows:

	5				
William Small		6000	—	6000	—
Notes Payable					
Gave William Small our note dated today, due in 30 da., with interest at 6%, in full of account.					

NOTE. No entry is made for interest at the time of giving a note.

The following entry is made to record the payment of the note on April 4:

Notes Payable	6000	—		
Interest Expense	30	—		
Cash			6030	—
Paid William Small cash for our note dated March 5, due today, with interest at 6%.				

The note returned to Stevens & Co. is the actual written promise previously given to William Small and is now returned marked "Paid." It therefore represents a value received, inasmuch as it is a cancellation of indebtedness.

The cost of using \$6000 for 30 da., \$30, is recorded in the *Interest Expense* account.

The total cash paid by Stevens & Co. is the sum of the face of the note, \$6000, and the interest for 30 da. at 6%, \$30.

Interest Expense Account. The *Interest Expense* account is debited with all payments made to others for interest. At the end of each month or other fiscal period, the *Interest Expense* account is closed into *Profit and Loss*.

Method of Calculating Interest. *Sixty-day (60-day)-6 % method:*

The commercial year is considered to consist of 12 mo. of 30 da. each, or 360 da.; 60 da. is $\frac{1}{6}$ of a year. If the interest for the whole year is at the rate of 6%, then for $\frac{1}{6}$ of a year it is $\frac{1}{6}$ of 6%, or 1%. One per cent (1%) of any amount may be found by moving the decimal point two places to the left.

Similarly, 6 da. is $\frac{1}{60}$ of a year. If the interest for a whole year is 6%, then for 6 days it would be $\frac{1}{60}$ of 6%, or 0.1%. One-tenth per cent (0.1%) of any amount may be found by moving the decimal point three places to the left.

Interest for any length of time and for any rate of interest may be found by using these two rules:

1. To find the interest for 60 da. at 6%, move the decimal point in the principal two places to the left.

2. To find the interest for 6 da. at 6%, move the decimal point in the principal three places to the left.

The following illustrations show some of the applications which may be made of these two rules:

Interest on \$360 for 60 days at 6 %. Moving the decimal point two places to the left gives \$3.60.

Interest on \$360 for 6 days at 6 %. Moving the decimal point three places to the left gives \$0.36.

Interest on \$360 for 54 days at 6%

Interest for 60 days	\$3.60	
Less interest for 6 days	<u>0.36</u>	\$3.24

Interest on \$360 for 35 days at 6%

Interest for 60 days	\$3.60	
Interest for 30 days ($\frac{1}{2}$ of 60)		\$1.80
Interest for 6 days	\$0.36	
Interest for 1 day ($\frac{1}{6}$ of \$0.36)	<u>0.06</u>	
Interest for 5 days (\$0.36 less \$0.06)		0.30
Interest for 35 days		<u>\$2.10</u>

Interest at Rates Other than 6%. The following summary illustrates the extension of the 6% method to include rates other than 6% by adding or deducting the proper fractional part of the interest found for 6%:

Interest at 7%. 7% is 1% greater than 6%, or $\frac{1}{6}$ greater. Interest at 7% is $\frac{1}{6}$ greater than at 6%.

Interest at 5%. 5% is 1% less than 6%, or $\frac{1}{6}$ less. Interest at 5% is $\frac{1}{6}$ less than at 6%.

Interest at $6\frac{1}{2}\%$. $6\frac{1}{2}\%$ is $\frac{1}{2}\%$ greater than 6%, or $\frac{1}{12}$ greater. Interest at $6\frac{1}{2}\%$ is $\frac{1}{12}$ greater than at 6%.

Interest for rates other than 6% may be found through the 60-day-6% method by using the following rules:

1. Find interest on given amount for required time at 6%.
2. If rate is greater than 6%, increase the interest found at 6% by $\frac{1}{12}$ for every $\frac{1}{2}\%$ that the given rate is greater than 6%.
3. If rate is less than 6%, decrease interest found at 6% by $\frac{1}{12}$ for every $\frac{1}{2}\%$ that the given rate is less than 6%.

Interest-Bearing Notes Receivable. The following interest-bearing notes receivable is used to illustrate the recording and the payment of such a note on the books of Stevens & Co.:

\$300 ⁰⁰	CHICAGO, ILLINOIS	March 5, 19__
Thirty days	AFTER DATE	I PROMISE TO PAY TO
THE ORDER OF	Stevens & Co.	
Three hundred ^{no} / ₁₀₀	DOLLARS	
AT	Exchange Trust Co. with interest at 6%	
VALUE RECEIVED		
No. 46	DUE	April 4, 19__
	B.K. Sells	

AN INTEREST-BEARING NOTE

To record this transaction, the following entry is made :

Notes Receivable	5				
B. K. Sells		300	—		
Received from B. K. Sells his note dated today, due in 30 da., with interest at 6%, in full of account.				300	—

The following entry is made to record the payment of the note on April 4 :

Cash	4				
Notes Receivable		301	50		
Interest Income				300	—
Received of B. K. Sells cash, for his note dated March 5, due today, with interest at 6%.				1	50

In this transaction, cash amounting to \$301.50 is received. Of this amount, \$300 is received in payment of the principal, and \$1.50 is received for the use of the principal for 30 da. The *Notes Receivable* account is credited for the face value of the note and the *Interest Income* account is credited for the amount received from B. K. Sells for the use of the money for 30 da.

Interest Income Account. The *Interest Income* account is credited with all moneys received from others in payment of interest. At the close of each month or other fiscal period, the *Interest Income* account is closed into *Profit and Loss*.

Exercise 44. Written

NOTES AND INTEREST

Use loose journal paper and make the entries for the following transactions taken from the business of Harris & Co. :

May 6, 19—. Paid Howard H. Lane cash, for your 90-day note and interest, due today. Face of the note, \$650 ; interest, \$9.75.

8. Received of James A. Frye cash, in payment of his 70-day note and interest, due today. Face of the note, \$660.20 ; interest, \$7.70.

10. Paid Fred Morey cash, for your 90-day note and interest, due today. Face of the note, \$900 ; interest at 7 %, \$15.75.

11. Received of Balcom & Son cash, in payment of their 60-day note and interest, due today. Face of the note, \$956.25 ; interest at $5\frac{1}{2}$ %, \$8.77.

15. Paid D. S. Rush cash, for your 60-day note and interest, due today. Face of the note, \$666.50; interest at $6\frac{1}{2}\%$, \$7.22.

20. Received of L. R. Bailey cash, in payment of his 60-day note and interest, due today. Face of the note, \$757.90; interest at 5%, \$6.32.

Exercise 45. Written

NOTES AND INTEREST

Write on slips of paper the notes called for in the following transactions. Make the entries for all transactions on loose journal paper.

Oct. 3, 19—. Received of Bogg & Son their note dated today, due in 10 da., with interest at 6%, in full of account, \$1200.

6. Borrowed cash, \$2000, from B. R. Dawn, and gave him a note due in 20 da., with interest at 6%.

9. Gave A. D. Long & Co. your note dated today, due in 15 da., with interest at 7%, in full of account, \$2400.

10. Loaned cash, \$1200, to M. K. Ames, and received his note due in 15 da., with interest at 5%.

13. Received of Bogg & Co. cash, in payment of their note dated Oct. 3, with interest.

19. Received of Bolger & Co. their note dated today, due in 10 da., with interest at $6\frac{1}{2}\%$, in full of account, \$1800.

24. Paid A. D. Long & Co. cash, for your note dated Oct. 9, with interest.

25. Received of M. K. Ames cash, in payment of his note dated Oct. 10, with interest.

26. Paid B. R. Dawn cash, for your note dated Oct. 6, with interest.

29. Received of Bolger & Co. cash, in payment of their note dated Oct. 19, with interest.

Exercise 46. Written

NOTES AND INTEREST

Use loose journal paper and make the entries for the following transactions taken from the business of Wright & Co.:

Nov. 2, 19—. Borrowed cash, \$900, from John Jones, and gave a note dated Nov. 2, due in 10 da., with interest at 6%.

3. Received of F. P. May a note dated Nov. 3, due in 20 da., with interest at $5\frac{1}{2}\%$, in full of account, \$300.

4. Received of L. A. Dixon a note dated Nov. 3, due in 20 da., with interest at 7%, to apply on account, \$200.

4. Gave R. S. Mason a note dated Nov. 4, due in 15 da., with interest at 6%, in full of account, \$600.

8. Paid William White cash, \$120, and a note for \$500 dated today, due in 20 da., with interest at 6%, in full of account.

12. Paid John Jones cash for our note dated Nov. 2, with interest.

19. Paid R. S. Mason cash for our note dated Nov. 4, with interest.

23. Received of F. P. May cash, in payment of his note dated Nov. 3, with interest.

23. Received of L. A. Dixon cash, in payment of his note dated Nov. 3, with interest.

28. Paid William White cash, for our note dated Nov. 8, with interest.

Model Statements, Adjusting and Closing Entries. The following trial balance and inventory notations are used as a basis in presenting a profit and loss statement, a balance sheet, and the adjusting and closing entries in which are shown all the accounts discussed up to this time:

H. M. Hatch

TRIAL BALANCE

June 30, 19 —

Cash	\$774.10	
Notes Receivable	960.00	
Accounts Receivable ¹	530.00	
Furniture and Furnishings	975.00	
Fuel Inventory	105.00	
Office Supplies Inventory	90.00	
Notes Payable		\$795.00
Accounts Payable ²		670.00
H. M. Hatch, Investment		5,000.00
H. M. Hatch, Drawing	165.00	
Merchandise Sales		11,060.00
Interest Income		18.60
Merchandise Purchases	12,870.00	
Rent Expense	450.00	
Salaries	600.00	
Interest Expense	24.50	
	<u>\$17,543.60</u>	<u>\$17,543.60</u>
Merchandise Inventory, June 30	\$4,234.00	
Fuel Inventory	30.00	
Office Supplies Inventory	25.00	

¹ Accounts Receivable are the personal accounts that show the amounts owed to the business.

² Accounts Payable are the personal accounts that show the amounts owed by the business.

H. M. Hatch

PROFIT AND LOSS STATEMENT

For the Period Jan. 1, 19—, to June 30, 19—

Merchandise Sales		\$11,060.00	
Merchandise Purchases	\$12,870.00		
Merchandise Inventory, June 30	<u>4,234.00</u>		
Cost of Merchandise Sold		<u>8,636.00</u>	
Gross Profit on Sales			\$2,424.00

OPERATING EXPENSES

Rent Expense		\$450.00	
Salaries		600.00	
Fuel—Fuel Inventory account	\$105.00		
Less Inventory, June 30	<u>30.00</u>	75.00	
Office Supplies—Office Supplies Inv. acct.	\$90.00		
Less Inventory, June 30	<u>25.00</u>	<u>65.00</u>	<u>1,190.00</u>
Net Operating Profit			\$1,234.00
Other Expense			
Interest Expense		\$24.50	
Other Income			
Interest Income		<u>18.60</u>	<u>5.90</u>
Net Profit for the Period			\$1,228.10

The *operating profit* gives the results of operating the business for its main purpose; that is, the buying and selling of merchandise.

The income and expense resulting from the receipt and payment of interest are connected with the financial affairs of the business, rather than the buying and selling operations, and are therefore separated from them. In order to arrive at the net profit or net loss for a period these financial items must be considered in connection with operating profit or loss. In the above illustration the *Interest Expense* exceeds the *Interest Income*, and therefore the difference is subtracted from the operating profit in order to obtain the net profit for the period.

The balance sheet of H. M. Hatch, in report form, is as follows:

H. M. Hatch

BALANCE SHEET

June 30, 19—

ASSETS

Cash	\$774.10
Notes Receivable	960.00
Accounts Receivable	530.00
Merchandise Inventory	4234.00
Furniture and Furnishings	975.00
Fuel Inventory	30.00
Office Supplies Inventory	<u>25.00</u>
Total Assets	\$7528.10

LIABILITIES

Notes Payable	\$795.00	
Accounts Payable	<u>670.00</u>	
Total Liabilities		<u>1465.00</u>

PROPRIETARY INTEREST

H. M. Hatch, Investment	\$5000.00	
H. M. Hatch, Drawing		
Net Profit for Period	\$1228.10	
Withdrawals	<u>165.00</u>	<u>1063.10</u>
Proprietary Interest, June 30		<u>\$6063.10</u>

ADJUSTING AND CLOSING ENTRIES

Fuel	June 30, 19—	75	—	75	—
Fuel Inventory					
Cost of coal consumed from Jan. 1 to June 30.					
An adjusting entry was defined on page 75 as a journal entry which has for its purpose the adjustment of the debit in an account to the inventory value at the end of the period.					
	30				
Office Supplies		65	—	65	—
Office Supplies Inventory					
Office supplies used from Jan. 1 to June 30.					
	30				
Merchandise Inventory		4234	—	4234	—
Merchandise Purchases					
To record the merchandise inventory, and to credit the <i>Merchandise Purchases</i> account for the merchandise remaining unsold on June 30.					
	30				
Merchandise Sales		8636	—	8636	—
Merchandise Purchases					
To transfer the balance of the <i>Merchandise Purchases</i> account, representing the cost of goods sold, to the <i>Merchandise Sales</i> account.					

	30				
Merchandise Sales	2424	—			
Profit and Loss			2424	—	
To transfer the balance of the <i>Merchandise Sales</i> account, representing the gross profit on merchandise sold, to the <i>Profit and Loss</i> account.					
	30				
Profit and Loss	1190	—			
Rent Expense			450	—	
Salaries			600	—	
Fuel			75	—	
Office Supplies			65	—	
To close the operating-expense accounts into the <i>Profit and Loss</i> account.					
NOTE. This is a compound entry and saves making four entries and four postings to <i>Profit and Loss</i> .					
	30				
Interest Income	18	60			
Profit and Loss			18	60	
To close the <i>Interest Income</i> account into the <i>Profit and Loss</i> account.					
	30				
Profit and Loss	24	50			
Interest Expense			24	50	
To close the <i>Interest Expense</i> account into the <i>Profit and Loss</i> account.					
	30				
Profit and Loss	1228	10			
H. M. Hatch, Drawing			1228	10	
To transfer the net profit of the period to <i>H. M. Hatch, Drawing</i> account.					

From this time on, closing the ledger will be by the journal method.

Exercise 47. Written

WORKING SHEETS, STATEMENTS, ADJUSTING AND CLOSING ENTRIES

From the following trial balances prepare

- the working sheet ;
- the profit and loss statement ;
- the balance sheet ;
- the adjusting and closing entries.

EXERCISES

117

1

Harold V. Enright

TRIAL BALANCE

July 31, 19—

Cash	\$682.50	
Accounts Receivable	1602.90	
Furniture and Furnishings	196.40	
Fuel Inventory	30.00	
Office Supplies Inventory	33.75	
Accounts Payable		\$396.25
Harold V. Enright, Investment		3000.00
Harold V. Enright, Drawing	100.00	
Merchandise Sales		1783.20
Interest Income		8.65
Merchandise Purchases	2302.20	
Rent Expense	75.00	
Salaries	150.00	
Interest Expense	15.35	
	<u>\$5188.10</u>	<u>\$5188.10</u>
Merchandise Inventory, July 31	\$981.10	
Fuel Inventory	15.00	
Office Supplies Inventory	10.75	

2

Bernard C. Dwyer

TRIAL BALANCE

Aug. 31, 19—

Cash	\$406.30	
Accounts Receivable	785.20	
Furniture and Furnishings	300.00	
Fuel Inventory	65.00	
Office Supplies Inventory	46.00	
Accounts Payable		\$264.75
Bernard C. Dwyer, Investment		2000.00
Bernard C. Dwyer, Drawing	50.00	
Merchandise Sales		1605.10
Interest Income		16.60
Merchandise Purchases	1972.50	
Rent Expense	50.00	
Salaries	200.00	
Interest Expense	11.45	
	<u>\$3886.45</u>	<u>\$3886.45</u>
Merchandise Inventory, Aug. 31	\$840.25	
Fuel Inventory	55.00	
Office Supplies Inventory	16.00	

Exercise 48. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *interest*, *interest-bearing note*, *non-interest-bearing note*.

2. Is the entry made for recording the interest at the time a note is given or when a note is paid? *Interest Exp.*

3. What account is debited when interest is paid? *Interest Income*

4. What account is credited when interest is received?

5. State the general rule for calculating interest by the 60-day-6% method.

6. Define the following terms: *accounts receivable*, *accounts payable*, *operating profit*, *net profit*.

7. Explain why, in a profit and loss statement, *Interest Expense* and *Interest Income* are not included in determining the operating profit or loss for a period.

8. Into what account are *Interest Expense* and *Interest Income* closed? *P*

CHAPTER XII

SPECIAL JOURNALS

Repetition of Accounts in Journal Entries. The great majority of the transactions of a business involve one of the following types of transactions: a purchase of merchandise, a sale of merchandise, a receipt of cash, or a payment of cash. Consequently, in recording *all* classes of transactions in the journal, as has been done up to this point in the text, there is a continual repetition of the names of the accounts involved — *Merchandise Purchases*, *Merchandise Sales*, and *Cash*. Furthermore, whenever these accounts appear in the journal as debits or credits, a separate posting to the ledger must subsequently be made.

Subdivisions of the Journal. To eliminate the rewriting of the names of accounts which are affected so frequently and to reduce the number of entries to be posted, the journal is generally divided into special journals or books, each of which is designed to record in the most efficient manner the debits and credits of a particular class of transactions.

The subdivisions of the journal introduced in this chapter are the purchases journal, sales journal, cash journal, and general journal.

The subdivisions of the journal are referred to as either *journals* or *books*. In this text they are called *purchases journal*, *sales journal*, *cash journal*, and *general journal*.

Purchases Journal. In every transaction so far considered in which merchandise is purchased, the debit is to *Merchandise Purchases*, and the credit is either to *Cash* or to a creditor's account.

In a purchase for cash, the debit and credit have been expressed in journal form, as follows:

Merchandise Purchases	000	—		000	—
Cash					

In a purchase of merchandise on account, the debit and credit have been expressed in journal form, as follows:

Merchandise Purchases	000	—		000	—
Creditor's account					

In order to avoid the labor of entering and posting each individual purchase of merchandise in the journal, all merchandise purchases

may be recorded in the *purchases journal*. A ruling of the purchases journal is shown on page 121.

After each purchase of merchandise has been received, inspected as to quality, and has been checked and found to agree with the invoice, an entry is made in the purchases journal regardless of whether the purchase was made for cash or on account. The date of the invoice is entered in the Date column, the name of the creditor in the Account Credit column, the address and the terms in these respective columns, and the amount of the invoice is entered in the Merchandise Purchases Debit column. The amount of each purchase is posted to the credit of the creditor's account in the ledger; and at the end of the month the total of the Merchandise Purchases Debit column is extended into the Total column and is posted in one amount to the debit of the *Merchandise Purchases* account in the ledger. The purchases journal is then ruled as illustrated in the model below.

If the merchandise-purchases entries were put in the form of a compound journal entry, they would appear as follows:

Merchandise Purchases	2665	25		
A. L. Holmes			425	—
William Wheeler			500	—
B. R. Lane			415	—
A. R. Luce			600	25
D. S. Peck			200	—
R. A. May			525	—

The details of the invoices are not entered in the purchases journal because the invoice is filed (usually by name) and is available for reference at any time.

By keeping an account with every person or firm from whom merchandise is purchased, all details relative to such purchases and the payments for them may be ascertained readily.

The following purchases of merchandise are entered in the model purchases journal illustrated on page 121:

April 4, 19—. Bought of A. L. Holmes, Albany, N.Y., for cash, merchandise, \$425.

6. Bought of William Wheeler, Buffalo, N.Y., at 10 da., merchandise, \$500.

9. Bought of B. R. Lane, Salem, Mass., at 15 da., merchandise, \$415.

15. Bought of A. R. Luce, Providence, R.I., merchandise, \$600.25, and gave in payment our 15-day note dated today, with interest at 6%.

The note is recorded in the general journal, p. 129.

20. Bought of D. S. Peck, New Haven, Conn., for cash, merchandise, \$200.

25. Bought of R. A. May, Boston, Mass., at 10 da., merchandise, \$525.

Purchases Journal

DATE	F.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.	TOTAL
<i>Apr. 4</i>		<i>A. L. Holmes</i>	<i>Albany, N. Y.</i>	<i>Cash</i>	<i>425—</i>	
<i>6</i>		<i>William Wheeler</i>	<i>Buffalo, N. Y.</i>	<i>10 da.</i>	<i>500—</i>	
<i>9</i>		<i>B. R. Lane</i>	<i>Salem, Mass.</i>	<i>15 da.</i>	<i>415—</i>	
<i>15</i>		<i>A. R. Luce</i>	<i>Providence, R. I.</i>	<i>15 da. note</i>	<i>600 25</i>	
<i>20</i>		<i>D. S. Peck</i>	<i>New Haven, Conn.</i>	<i>Cash</i>	<i>200—</i>	
<i>25</i>		<i>R. A. May</i>	<i>Boston, Mass.</i>	<i>10 da.</i>	<i>525—</i>	
<i>30</i>		<i>Mase. Purchases</i>	<i>Dr.</i>			<i>2465 25</i>

A MODEL PURCHASES JOURNAL

Postings from the purchases journal are indicated by writing the initial letters of the purchases journal (P.J.) in the extreme right of the explanation column of the ledger account, and the page numbers are entered in the folio column as in posting from the journal.

After the total of the above purchases journal is posted, the *Merchandise Purchases* account appears as follows:

MERCHANDISE PURCHASES

19— Apr.	30	P. J.	1	2665	25						
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Exercise 49. Written

PURCHASES JOURNAL

Rule a sheet of journal paper similar to the model purchases journal given above and enter thereon the following merchandise purchases of A. R. Lewis, 84 State St., New London, Conn.:

June 2, 19—. Bought of A. H. Ball, 21 Franklin St., Providence, R. I., at 15 da., merchandise, \$206.50.

2. Bought of J. K. Knapp, 44 Montauk Ave., Newport, Conn., at 10 da., merchandise, \$675.

3. Bought of B. C. Hill & Co., 27 Ocean Ave., Salem, Mass., merchandise, \$326, and gave in payment a note due in 20 da., with interest at 6%.

7. Bought of R. S. Mason, 79 Piquot Ave., Boston, Mass., at 20 da., merchandise, \$200.

12. Bought of A. H. Ball, at 20 da., merchandise, \$290.

18. Bought of R. S. Mason, at 15 da., merchandise, \$140.

26. Bought of A. H. Ball, at 10 da., merchandise, \$40.

30. Bought of B. C. Hill & Co., for cash, merchandise, \$400.

On sheets of ledger paper, open accounts for the following, allowing five lines for each account: A. H. Ball, B. C. Hill & Co., J. K. Knapp, R. S. Mason, and Merchandise Purchases.

Rule and post the purchases journal.

Retain for use in a subsequent exercise the ledger accounts obtained in this exercise.

Sales Journal. In every transaction in which merchandise is sold, the debit is either to *Cash* or to a debtor's account, and the credit is to *Merchandise Sales*.

In a sale of merchandise for cash, the debit and credit have been expressed in journal form, as follows:

Cash	000	—		000	—
Merchandise Sales					

In a sale of merchandise on account, the debit and credit have been expressed in journal form, as follows:

Debtor's account	000	—		000	—
Merchandise Sales					

In order to avoid the labor of entering and posting each individual sale of merchandise in the journal, all merchandise sales may be entered in the *sales journal*. A ruling of the sales journal is given on page 123. An entry is made in the sales journal for each sale of merchandise, whether sold for cash or on account. The name of the customer to be debited is written in the Account Debit column, and the amount of the invoice is entered in the Merchandise Sales Credit column. The amount of each sale is posted to the debit of the customer's account in the ledger; and at the end of the month the total of the Merchandise Sales Credit column is extended into the Total column and is posted in one amount to the credit of the *Merchandise Sales* account in the ledger. The sales journal is then ruled as illustrated in the model on page 123. By using a sales journal the individual and collective sales may be referred to readily, for all the sales are in the one book.

If the merchandise-sales entries were put in the form of a compound journal entry, they would appear as follows:

Frank L. Sweet	280	—		
Ralph Bates & Co.	375	—		
B. A. Brown	360	—		
F. M. Totten	700	—		
B. L. Black & Co.	400	—		
A. L. Jones	260	—		
Merchandise Sales			2375	—

By keeping an account with every person or firm to whom merchandise is sold, all details relative to such sales and the payments for them may be ascertained readily.

The following sales of merchandise are entered in the model sales journal illustrated below:

April 6, 19—. Sold Frank L. Sweet, Troy, N. Y., at 10 da., merchandise, \$280.

8. Sold Ralph Bates & Co., City, at 10 da., merchandise, \$375.

12. Sold B. A. Brown, Troy, N. Y., at 10 da., merchandise, \$360.

19. Sold F. M. Totten, Hudson, N. Y., merchandise, \$700, and received in payment his note due in 10 da., with interest at 6%.

The note is recorded in the general journal, p. 129.

24. Sold B. L. Black & Co., Syracuse, N. Y., at 15 da., merchandise, \$400.

30. Sold A. L. Jones, City, for cash, merchandise, \$260.

Sales Journal

DATE	F.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.	TOTAL
<i>Apr 6</i>		<i>Frank L. Sweet</i>	<i>Troy, N. Y.</i>	<i>10 da.</i>	<i>280 —</i>	
		<i>Ralph Bates & Co.</i>	<i>City</i>	<i>10 da.</i>	<i>375 —</i>	
		<i>B. A. Brown</i>	<i>Troy, N. Y.</i>	<i>10 da.</i>	<i>360 —</i>	
		<i>F. M. Totten</i>	<i>Hudson, N. Y.</i>	<i>10 da. note</i>	<i>700 —</i>	
		<i>B. L. Black & Co.</i>	<i>Syracuse, N. Y.</i>	<i>10 da.</i>	<i>400 —</i>	
		<i>A. L. Jones</i>	<i>City</i>	<i>Cash</i>	<i>260 —</i>	
		<i>Merchandise Sales, Cr.</i>				<i>2375 —</i>

A MODEL SALES JOURNAL

NOTE. In this form of sales journal it is assumed that a copy of the invoice sent to the customer is retained to furnish information concerning the details of the sale.

Postings from the sales journal are indicated by writing the initial letters of the sales journal (S.J.) in the extreme right of the explana-

12. Sold A. M. Mann & Co., 17 Mound St., City, for cash, merchandise, \$210.50.

16. Sold D. A. Price, 13 State St., City, at 10 da., merchandise, \$175.60.

23. Sold A. B. Brown, 27 Piquot Ave., City, merchandise, \$100.50, and received in payment his note due in 30 da., with interest at 6%.

28. Sold B. D. Wright, at 10 da., merchandise, \$490.

30. Sold D. A. Price, for cash, merchandise, \$69.70.

On sheets of ledger paper, open accounts for the following, allowing five lines for each account: A. B. Brown, R. S. Field, A. M. Mann & Co., D. A. Price, D. A. Slavin & Co., B. D. Wright, Merchandise Sales.

Rule and post the sales journal.

Retain for use in a subsequent exercise the ledger accounts obtained in this exercise.

Cash Journal. From the explanations and illustrations already given of the purchases journal and sales journal, it is apparent that much labor might likewise be saved in the entering and in the posting of cash transactions by having a special journal for cash transactions. Consequently, a *cash journal* is used to record all transactions involving cash. The model below shows one ruling of a cash journal. The cash received is entered on the cash-received side of the journal; *Cash* is debited by writing the amount received in the Cash Debit column,

Cash Paid

DATE	F.	ACCOUNT DEBIT	EXPLANATION	CASH, CR.	TOTAL
19 Apr. 2		Rent Expense	For month of April	60.-	
4		Office Supplies Inv.	Invoices of A. R. Dow & Co.	16.25	
4		A. L. Holmes	Invoice of April 4	425.-	
11		Furniture and Furn.	Desks, Table and Chairs	120.-	
15		Salaries	Services of clerk	30.-	
16		William Wheeler	Invoice of April 6	500.-	
20		D. S. Beck	Invoice of April 20	200.-	
24		B. R. Lane	Invoice of April 9	415.-	
30		Notes Payable	15 da. note of A. R. Luce	600.25	
30		Interest Expense	Interest on Luce note	1.50	
30		Salaries	Services of clerk	30.-	
30		Salaries	Monthly salary of Prop.	100.-	
30		Cash Cr.			2498.-
		Balance on Hand			678.17
					3176.17

and the account to be credited is written in the Account Credit column. The cash paid is entered on the cash-paid side of the journal, the credit to *Cash* being made by entering the amount paid in the Cash Credit column, and the debit is made by writing the name of the account in the column headed Account Debit.

The following transactions, taken from the business of John Fisher, are entered in the model cash journal illustrated on pages 124 and 125 :

April 1, 19—. John Fisher began the paint business, investing cash, \$1200.

2. Paid R. D. Knapp cash, for rent of store for April, \$60.

4. Paid A. R. Dorr & Co. cash, for billheads and envelopes, \$16.25.

4. Paid A. L. Holmes cash, for merchandise purchased today, \$425.

10. Received of Frank L. Sweet cash, in full of account, \$280.

11. Paid the Hudson Furniture Co., City, cash, for office desk, table, and chairs, \$120.

15. Paid the clerk cash, for services to date, \$30.

16. Paid William Wheeler cash, in full of account, \$500.

18. Received of Ralph Bates & Co. cash, in full of account, \$375.

20. Paid D. S. Peck cash, for merchandise purchased today, \$200.

22. Received of B. A. Brown cash, in full of account, \$360.

24. Paid B. R. Lane cash, in full of account, \$415.

29. Received of F. M. Totten cash, for his note and interest due today. Face of note, \$700; interest, \$1.17.

30. Received from A. L. Jones cash, for merchandise sold him today, \$260.

30. Paid A. R. Luce cash, for our 15-day note and interest due today. Face of note, \$600.25; interest, \$1.50.

30. Paid John Fisher cash, for his monthly salary, \$100.

30. Paid the clerk cash, for services to date, \$30.

Posting the Cash Journal. A separate posting is made to the credit of each account, the name of which appears in the Account Credit column of the received side of the cash journal. The total of the Cash Debit column is extended into the total column and is posted in one amount to the debit of *Cash* in the ledger. From the paid side of the cash journal, separate postings are made to the debit of each of the accounts appearing in the Account Debit column. At the end of the month the total of the Cash Credit column is extended into the total column and posted in one amount to the credit of the *Cash* account in the ledger.

Postings from the cash journal are indicated by writing the initial letters of the cash journal (C.J.) in the explanation column of the ledger account and the page numbers in the folio column.

If the cash-debit items were put in the form of a compound journal entry, they would appear as shown on the opposite page.

Cash	3176	17		
John Fisher, Investment			1200	—
Frank L. Sweet			280	—
Ralph Bates & Co.			375	—
B. A. Brown			360	—
Notes Receivable			700	—
Interest Income			1	17
A. L. Jones			260	—

If the cash-credit items were put in the form of a compound journal entry, they would appear as follows:

Rent Expense	60	—		
Office Supplies Inventory	16	25		
A. L. Holmes	425	—		
Furniture and Furnishings	120	—		
Salaries	30	—		
William Wheeler	500	—		
D. S. Peck	200	—		
B. R. Lane	415	—		
Notes Payable	600	25		
Interest Expense	1	50		
Salaries	100	—		
Salaries	30	—		
Cash			2498	—

After the totals of the cash journal (pages 124 and 125) have been posted, the *Cash* account appears as follows:

CASH

19—						19—					
Apr.	30	C. J.	1	3176	17	Apr.	30	C. J.	2	2498	—

The difference between the cash received and the cash paid is written below the total of the cash paid, and the cash journal is balanced as illustrated in the model on pages 124 and 125.

Exercise 51. Written

CASH JOURNAL

Using the two inside pages of a double sheet of journal paper for a cash journal, head the columns as in the model cash journal and record the following transactions:

June 2, 19—. A. R. Lewis began the electrical-supply business, investing cash, \$1750.

3. Paid D. M. Jones cash, for rent of store for June, \$60.
4. Paid A. L. Doran Co. cash, for office and store furniture, \$180.
5. Paid K. D. Greene cash, for stationery and supplies, \$35.
7. Paid J. L. Luce, a clerk, cash, for services for week, \$20.
12. Received of B. D. Wright cash, in full of account, \$60.
12. Received of A. M. Mann & Co. cash, in payment for goods sold to them today, \$210.50.
12. Paid J. K. Knapp cash, in full of account, \$675.
14. Paid J. L. Luce cash, for services for week, \$20.
14. Received of D. A. Slavin & Co. cash, in full of account, \$400.
17. Paid A. H. Ball cash, in full of account, \$206.50.
21. Paid J. L. Luce cash, for services for week, \$20.
23. Paid B. C. Hill & Co. cash, for our 20-day note and interest due today. Face of note, \$326; interest, \$1.09.
25. Received of R. S. Field cash, for his 20-day note and interest due today. Face of note, \$300; interest, \$1.
26. Received of D. A. Price cash, in full of account, \$175.60.
27. Paid R. S. Mason cash, in full of account, \$200.
28. Paid J. L. Luce cash, for services for week, \$20.
30. Received of D. A. Price cash, in payment for goods sold to him today, \$69.70.
30. Paid B. C. Hill & Co. cash, for goods purchased today, \$400.
30. A. R. Lewis takes cash, for his monthly salary, \$100.

On sheets of ledger paper, open accounts for the following, allowing five lines for each account: *Cash, Notes Receivable, Furniture and Furnishings, Office Supplies Inventory, Notes Payable, A. R. Lewis, Investment, Interest Income, Rent Expense, Salaries, Interest Expense.*

In posting this exercise, in addition to the accounts opened above, use the accounts which have been opened in Exercises 49 and 50.

Balance, rule, and post the cash journal.

Retain for use in a subsequent exercise the ledger accounts obtained in this exercise.

The General Journal. When the subdivisions of the journal, which have been explained in the previous pages, are used, the *general journal* is used to record only the more infrequent transactions of a business. These ordinarily consist of statements relative to the opening of the business, entries which cannot be recorded in any of the subdivisions of the journal, and adjusting and closing entries.

Based upon the transactions used in illustrating the purchases journal, sales journal, and cash journal, there are two entries which would be made in the general journal of John Fisher during the month of April. The first is the entry on April 15 to record the note payable given to A. R. Luce in payment of the invoice of that date (p. 120),

and the second is the entry on April 19 to record the receipt of a note from F. M. Totten in payment for the goods sold him on that date (p. 123).

The journal of John Fisher for April would appear as follows:

April 1, 19-

John Fisher began the paint business at 67 Main St. investing cash \$1200.

15

A. R. Luce

600.25

Notes Payable

600.25

Gave A. R. Luce our note dated April 15, due in 15 da., with interest at 6%, in payment for goods purchased today.

19

Notes Receivable

700.-

F. M. Totten

700.-

Received of F. M. Totten his note, due in 10 da., with interest at 6%, in payment for goods sold today.

A MODEL GENERAL JOURNAL

Exercise 52. Written

GENERAL JOURNAL

Make entries in the general journal for the following transactions taken from the business of A. R. Lewis:

1. The note payable given to B. C. Hill & Co. on June 3, for \$326, due in 20 da., with interest at 6%.
2. The note receivable received from R. S. Field on June 5, for \$300, due in 20 da., with interest at 6%.

3. The note receivable received from A. B. Brown on June 23, for \$100.50, due in 30 da., with interest at 6%.

Post these entries to the ledger accounts used in Exercises 49, 50, and 51.

Take a trial balance of all ledger accounts obtained in Exercises 49, 50, and 51. Arrange the accounts in the trial balance in the order followed in this text.

Exercise 53. Written

POSTING SPECIAL JOURNALS

On sheets of ledger paper, open the following accounts, allowing five lines for each account: *Cash, Notes Receivable, Ralph Bates & Co., B. L. Black & Co., B. A. Brown, A. L. Jones, Frank L. Sweet, F. M. Totten, Furniture and Furnishings, Office Supplies Inventory, Notes Payable, A. L. Holmes, B. R. Lane, A. R. Luce, R. A. May, D. S. Peck, William Wheeler, John Fisher, Investment, Merchandise Sales, Interest Income, Merchandise Purchases, Rent Expense, Salaries, Interest Expense.*

Post the model journal, purchases journal, sales journal, and cash journal to the above accounts.

Take a trial balance of the ledger accounts.

Advantages of Subdividing the Journal. The following advantages result from the use of the special journals:

1. Reduces the work in entering transactions in the books of original entry.

2. Reduces posting.

3. Makes possible the distribution of the bookkeeping to several individuals.

4. Information is more readily obtained if the cash, the purchases, and the sales are each grouped in separate books.

CASH RECEIVED

DATE		F.	ACCOUNT CREDIT	EXPLANATION	CASH, DR.		TOTAL	
19—								
Mar.	1	11	C. B. Lyons, Investment	Invested in business	2100	—		
	12	4	L. A. Noon	Invoice of March 12	460	—		
	25	3	James A. Barr	Invoice of March 8	1180	—		
	27	2	Notes Receivable	10-day note of William Sadler	1890	50		
	27	14	Interest Income	Interest on Sadler note	3	15		
	31	1	Cash, Dr.				5633	65
							5633	65
Apr.	1		Balance on hand				985	13

5. The balance of cash may be readily found at any time.
6. The individual and collective purchases may be referred to at once, for all the purchases are in one book.
7. The individual and collective sales may be referred to at once, for all the sales are in one book.

MODEL SET

On pages 130 to 133 a complete illustrative model set is shown using the general journal, cash journal, purchases journal, and sales journal. The ledger accounts, after posting, are shown on pages 133 to 135. Note in the ledger accounts that the initials of the journal from which each posting is made are placed in the extreme right of the explanation column.

March 1, 19—. C. B. Lyons, 61 Chase St., Chicago, Ill., began the wholesale business in men's furnishings, investing cash, \$2100.

The entry to record the investment of cash will be made in the cash journal, but a memorandum statement should be made in the general journal.

2. Paid R. C. Rich cash, for rent of store for March, \$75.
2. Bought from the Union Supply Co., City, for cash, office books and supplies, \$16.50.
5. Bought of L. A. Rowe & Co., 515 Tower St., Minneapolis, Minn., at 15 da., merchandise, \$1520.
8. Sold James A. Barr, 1810 Normal St., Buffalo, N. Y., at 20 da., merchandise, \$1180.
9. Bought of Wells & Co., 98 Front St., City, for cash, merchandise, \$690.
10. Bought of L. A. Rowe & Co., at 30 da., merchandise, \$1320.
12. Sold L. A. Noon, 36 Canal St., City, for cash, merchandise, \$460.
15. Sold James A. Barr, at 20 da., merchandise, \$590.

CASH PAID

DATE	F.	ACCOUNT DEBIT	EXPLANATION	CASH, CR.		TOTAL	
19—							
Mar.	2	16	Rent Expense	For month of March	75	—	
	2	6	Office Supplies Inventory	Invoice of Union Supply Co.	16	50	
	9	9	Wells & Co.	Invoice of March 9	690	—	
	20	8	L. A. Rowe & Co.	Invoice of March 5	1520	—	
	23	12	C. B. Lyons, Drawing	For personal use	75	—	
	26	7	Notes Payable	10-day note due Geo. West	1210	—	
	26	18	Interest Expense	Interest on West note	2	02	
	29	8	L. A. Rowe & Co.	To apply on account	1000	—	
	31	17	Salary	Salary of bookkeeper	60	—	
	31	1	Cash, Cr.				4648 52
			*Balance on hand				985 13
							5633 65

16. Bought of George West, 625 Locust St., Detroit, Mich., merchandise, \$1210, and gave in payment a note due in 10 da., with interest at 6%.

17. Sold William Sadler, 1020 Fuller St., Albany, N. Y., merchandise, \$1890.50, and received in payment his note due in 10 da., with interest at 6%.

20. Paid L. A. Rowe & Co. cash, for invoice of March 5, \$1520.

23. C. B. Lyons withdrew cash, for personal use, \$75.

25. Received of James A. Barr cash, in payment of invoice of March 8, \$1180.

26. Paid George West cash, for our note dated March 16, with interest.

27. Received of William Sadler cash, in payment of his note dated March 17, with interest.

29. Paid L. A. Rowe & Co. cash, to apply on account, \$1000.

31. Paid A. M. Jackson, the bookkeeper, cash, for services to date, \$60.

GENERAL JOURNAL

March 1, 19—

		C. B. Lyons, Chicago, Ill., began the wholesale men's furnishings business, investing cash, \$2100.				
		16				
10		George West	1210	—		
7		Notes Payable			1210	—
		Gave George West our note dated today, due in 10 da., with interest at 6%, in payment for goods purchased today.				
		17				
2		Notes Receivable	1890	50		
5		William Sadler			1890	50
		Received of William Sadler his note dated today, due in 10 da., with interest at 6%, in payment for goods sold today.				

PURCHASES JOURNAL

DATE	F.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.	TOTAL
19—						
Mar.	5	8 L. A. Rowe & Co.	Minneapolis, Minn.	15 da.	1520	—
	9	9 Wells & Co.	City	Cash	690	—
	10	8 L. A. Rowe & Co.	Minneapolis, Minn.	30 da.	1320	—
	16	10 George West	Detroit, Mich.	10-day note	1210	—
	31	15 Mdse. Purchases, Dr.				4740 —

SALES JOURNAL

DATE	F.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, Cr.	TOTAL
19— Mar.	8	3	James A. Barr	Buffalo, N. Y.	20 da.	1180 —
	12	4	L. A. Noon	City	Cash	460 —
	15	3	James A. Barr	Buffalo, N. Y.	20 da.	590 —
	17	5	William Sadler	Albany, N. Y.	10-day note	1890 50
	31	13	Mdse. Sales, Cr.			4120 50

CASH

19— Mar.	31	C. J.	1	5633	65	19— Mar.	31	C. J.	2	4648	52
				5633	65	*	31	Balance		985	13
										5633	65
19— Apr.	1	Balance		985	13						

NOTES RECEIVABLE

19— Mar.	17	G. J.	1	1890	50	19— Mar.	27	C. J.	1	1890	50
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1810 Normal St. JAMES A. BARR

Buffalo, N. Y.

19— Mar.	8	S. J.	1	1180	—	19— Mar.	25	C. J.	1	1180	—
	15	S. J.	1	590	—						

L. A. NOON

36 Canal St.

City

19— Mar.	12	S. J.	1	460	—	19— Mar.	12	C. J.	1	460	—
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WILLIAM SADLER

1020 Fuller St.

Albany, N. Y.

19— Mar.	17	S. J.	1	1890	50	19— Mar.	17	G. J.	1	1890	50
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OFFICE SUPPLIES INVENTORY

19— Mar.	2	C.J.	2	16	50						
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NOTES PAYABLE

19— Mar.	26	C.J.	2	1210	—	19— Mar.	16	G.J.	1	1210	—
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L. A. ROWE & Co.

515 Tower St.

Minneapolis, Minn.

19— Mar.	20	C.J.	2	1520	—	19— Mar.	5	P.J.	1	1520	—
	29	C.J.	2	1000	—		10	P.J.	1	1320	—

WELLS & Co.

98 Front St.

City

19— Mar.	9	C.J.	2	690	—	19— Mar.	9	P.J.	1	690	—
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GEORGE WEST

625 Locust St.

Detroit, Mich.

19— Mar.	16	G.J.	1	1210	—	19— Mar.	16	P.J.	1	1210	—
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C. B. LYONS, INVESTMENT

						19— Mar.	1	C.J.	1	2100	—
--	--	--	--	--	--	-------------	---	------	---	------	---

C. B. LYONS, DRAWING

19— Mar.	23	C.J.	2	75	—						
-------------	----	------	---	----	---	--	--	--	--	--	--

MERCHANDISE SALES

19—	Mar.	31	S. J.	1	4120	50
-----	------	----	-------	---	------	----

INTEREST INCOME

19—	Mar.	27	C. J.	1	3	15
-----	------	----	-------	---	---	----

MERCHANDISE PURCHASES

19—	Mar.	31	P. J.	1	4740	—
-----	------	----	-------	---	------	---

RENT EXPENSE

19—	Mar.	2	C. J.	2	75	—
-----	------	---	-------	---	----	---

SALARY

19—	Mar.	31	C. J.	2	60	—
-----	------	----	-------	---	----	---

INTEREST EXPENSE

19—	Mar.	26	C. J.	2	2	02
-----	------	----	-------	---	---	----

C. B. Lyons

TRIAL BALANCE, March 31, 19—

1	Cash	985	13		
3	James A. Barr	590	—		
6	Office Supplies Inventory	16	50		
8	L. A. Rowe & Co.			320	—
11	C. B. Lyons, Investment			2100	—
12	C. B. Lyons, Drawing	75	—		
13	Merchandise Sales			4120	50
14	Interest Income			3	15
15	Merchandise Purchases	4740	—		
16	Rent Expense	75	—		
17	Salary	60	—		
18.	Interest Expense	2	02		
		6543	65	6543	65

13. Paid A. L. Jencks & Co., City, cash, for groceries used in Mr. Stevens's home, \$80.

13. Sold to M. L. Mahan, Woodstock, at 20 da.:

75 T. Egg Coal	@ \$14.50
25 T. Nut Coal	@ 14.50

15. Paid L. A. Roscoe & Co. cash, in full of account, \$2050.

16. Received of George H. Marsh cash, to apply on account, \$500.

19. Gave Sturdy Coal Co. cash, \$862.50, and a note due in 30 da., with interest at 6%, for the balance due on account. *y J.*

26. C. M. Stevens took 10 tons of grate coal for private use, \$102.50.

30. Paid cash for salaries, as follows:

Bookkeeper	\$80
Truck Driver	70
Proprietor	100

Inventories, April 30, 19—

Merchandise

25 T. Nut Coal	@ \$10.25
25 T. Egg Coal	@ 10.25
40 T. Grate Coal	@ 10.25
50 T. West Va. Coke	@ 7.00
10 cd. Pine Wood	@ 11.50

Office Supplies	35.00
-----------------	-------

Closing the Exercise. Rule, foot, and post the different journals.

Take a trial balance.

Prepare the statements.

Close the ledger.

Be certain to make and post the adjusting entry involving the *Office Supplies Inventory*.

Take a proof trial balance.

Exercise 55. Oral

TOPICS FOR CLASS DISCUSSION

1. State the advantages of having such subdivisions of the journal as the purchases journal, the sales journal, the cash journal.

2. For each of the following journals (1) state the columnar headings of the journal, as used in this chapter, (2) describe how entries are made in it, (3) explain the posting of the journal, (4) state how the journal is referred to in the ledger explanation column:

a. The purchases journal.

b. The sales journal.

c. The cash journal (both received and paid sides).

CHAPTER XIII

INTRODUCTION TO BUSINESS PRACTICE

BANKS AND BANKING

Banks. A *bank* may be defined as an institution organized under either the laws of the state or the national government, to provide for the safe-keeping, loaning, exchanging, and issuing of money.

Banks may be classified as

- (a) savings banks;
- (b) commercial banks.

Savings Banks. A *savings bank*, as its name implies, is an institution for the safe-keeping and investing of money which is saved.

Money put in a savings bank is presumably surplus funds set aside for possible emergencies. The bank invests this money and pays the depositors interest on the money thus saved. This money is not subject to withdrawal by check. (For checks see pages 140 and 141.)

No. 06789	
Stroud, Chas. S.	
MAIN STREET BANK	
Signature:	Chas. S. Stroud
Address:	1050 Boylston Street
Telephone:	B. B. 9188
○	

A SIGNATURE CARD

Commercial Banks. A *commercial bank* provides

a safe place to keep money and securities, facilitates the payment of money by allowing deposits to be drawn out by means of orders, called checks, makes loans to businesses, and acts as agent in the collection of notes, checks, and other business papers.

Opening a Bank Account. A person usually opens an account with a commercial bank by being introduced to an officer of the bank, if he is not known to the bank. He is then asked to fill out a signature card similar to the illustration above.

This card is kept in the files of the bank and is used for reference in cases of doubt regarding the authenticity of the signature appearing on checks of the depositor. The signature used on this card should be plain and legible. One should always write his signature on bank checks to conform with the signature on the signature card.

Having filled out the signature card, the depositor receives a bank pass book and a check book.

Deposit Ticket. A deposit ticket is a blank on which the details of a deposit are entered. A simple form is here given.

Every time a deposit is made, a deposit ticket is made out as illustrated below and handed to the receiving teller with the deposit. The checks deposited are listed separately. If drawn on a bank in the same city as the bank in which the deposit is made, the name of the bank on which it is drawn should be written; if it is drawn on a bank outside of the city, the name of the outside town or city should be written.

Before checks are deposited they should be indorsed with the same signature as on the signature card. The same discussion regarding the indorsement of notes applies to checks.

The deposit ticket is used by the bank for posting to the depositor's account. It should therefore be made out very carefully.

The Bank Pass Book. The bank pass book is a small bound book in which the receiving teller enters the date, nature, and amount of each deposit. It is the bank's official receipt for the deposit.

The bank pass book is one of a number of memoranda books kept in most business offices. No entries are made from memoranda books, but they are valuable as references. Thus, there are three general groups of books: books of original entry, books of final entry, and memoranda books.

Some depositors, and some banks, prefer the use of duplicate deposit tickets in place of the bank pass book. The deposit ticket is made out in duplicate and both tickets are handed to the receiving teller, who stamps one of them with the bank's stamp, putting his initials on the stamp. This copy is returned to the depositor as a receipt for the

MAIN STREET STATE BANK BOSTON, MASS.		
DEPOSITED BY		
<i>Chas. S. Stroud</i>		
<i>June 2, 19 --</i>		
LIST EACH CHECK SEPARATELY		
Currency	402	—
Gold	40	—
Silver	60	75
Checks as follows:		
<i>Boston City Bank</i>	190	—
<i>Second Nat. Bank</i>	86	80
<i>Chicago, Ill.</i>	260	—
<i>St. Louis, Mo.</i>	110	--
Total	1149	55

A DEPOSIT TICKET

deposit. Duplicate deposit tickets are easily filed, and, inasmuch as they show the complete details of the deposit, they are a very valuable record.

Checks. A check is a written order, by a depositor, on a bank to pay a certain sum of money to the order of a designated person or to bearer. Checks are supplied to depositors by a bank. They are usually in a bound book, each check consisting of two parts: the stub, or depositor's record, and the check proper. The check is torn from the book when issued; the check stub is left in the book and serves as a memorandum and as a basis for the bookkeeping entry.

A common form of check book is illustrated in the following model:

No. <u>1</u> Date <u>April 4, 19</u> To <u>John L. Bronson</u> For <u>On account</u> Amount \$ <u>180.80</u>	180.80	No. <u>1</u> MAIN STREET STATE BANK 6-180 BOSTON, MASS. <u>April 4, 19</u> PAY TO THE ORDER OF <u>John L. Bronson</u> \$ <u>180.80</u> <u>One hundred eighty and 80/100</u> DOLLARS <u>John C. Martin</u>
No. <u>2</u> Date <u>April 6, 19</u> To <u>A. L. Allen</u> For <u>Invoice of 43</u> Amount \$ <u>90.00</u>	90.00	No. <u>2</u> MAIN STREET STATE BANK 6-180 BOSTON, MASS. <u>April 6, 19</u> PAY TO THE ORDER OF <u>A. L. Allen</u> \$ <u>90.00</u> <u>Ninety and 00/100</u> DOLLARS <u>John C. Martin</u>

A FORM OF CHECK BOOK

In making out a check, the following directions should be observed:

1. First fill out the check stub carefully and completely. The stub is used as the basis of the cash-journal entry and therefore should contain all necessary information.

2. Write the check as follows:

a. Insert the date and number of check.

b. Write the name of the payee. Be certain of the spelling of the payee's name.

c. Write the amount in figures, placing first figure as close as possible to the dollar sign.

d. Write the amount out in words, starting the first word of the amount at the extreme left of the line, and filling in the whole line with the amount or a waved line.

e. Sign the check in the identical form given to the bank on the signature card.

After the check is made out, it is given to the payee, who cashes it or deposits it in his own bank. When it comes back to the bank on which it is drawn, the amount is deducted from the depositor's account.

Check Record. Below is given a form for keeping a record of the deposits and the checks in the check book. In the check book are blank pages for the keeping of this record.

Each deposit is entered when made, and each check when drawn; the balance may be extended daily, or as often as the cash is proved. By writing the balance directly opposite and to the right of the last deposit or check, that date indicates the date of the balance.

DEPOSITS				CHECKS					BALANCE	
Date		Amount		Date		Ck. No.	Amount			
Apr.	2	2500	—	Apr.	4	1	180	80	2319	20
	16	200	—		6	2	90	—	2229	20
18				3	248	20	2429	20		
21				4	500	—	2181	—		
30				5	425	10	1681	—		
	30	356	40		30				1612	30

CHECK RECORD

Instead of the check record as above described, some business houses keep the bank record on the check stub. The amount of each deposit is added, the amount of each check is subtracted, and the new balance is carried forward to the next stub.

Monthly Bank Statement. Most banks render a monthly statement to their depositors, showing the checks paid, deposits made, and the daily balances. Checks that have been paid by the bank and canceled¹ are returned with this statement.

Probably but few banks do not render a monthly statement to their depositors. In such cases, the bank pass book is frequently used to show the balance of the account. Deposits are usually entered in the bank pass book at the time the deposit is made, but those deposits not already entered in the pass book would be recorded therein by the bank bookkeeper when he "balanced" the pass book. Where actual statements are not made, the checks paid and canceled are totaled on an adding machine; the total of such checks are entered under the last deposit in the pass book somewhat as follows: "Mar. 31. Canceled Checks \$____" and the balance of the account is shown as of the date the canceled checks were totaled. These canceled checks are then returned with the "balanced" pass book.

The student will see at once that the use of a pass book for giving a depositor a statement of his dealings with the bank for a period, usually a month, is not as satisfactory as the monthly bank statement, illustrated on page 142.

¹ A canceled check is a check which has been paid by the bank. After payment is made, either the date when paid or the name of the bank, or both, is punched on the check with a perforating machine. This cancels the check. These canceled checks are then filed under the depositor's name until the end of the month, when they are returned to the depositor with the monthly bank statement.

Below is shown a form of monthly bank statement.

The "Key" at the bottom of the statement is merely an explanation of the abbreviations used. These symbols are not the same on all monthly bank statements.

MAIN STREET STATE BANK					
T. W. Norris, 99 Maryland Ave., Boston, Mass.					
June 19--.					
Date	Checks in Detail		Deposits	Date	Balance
			\$200.00	1	\$1450.60
5	\$70.00	-		1	1650.60
8	470.00				1420.60
		\$160.00			950.60
			790.00	15	1740.60
			IN 2.90	15	1743.60
17	1000.00				743.60
23	200.00	-			493.60
		50.00			1213.90
27	43.00		720.40	27	1170.90
28	423.00				747.90
<p>KEY</p> <p>CR -- Credit CC -- Certified Check Last amount in this column is your balance.</p> <p>LN -- Loan CG -- Charge PLEASE EXAMINE AT ONCE.</p> <p>CL -- Collection EX -- Exchange</p> <p>RT -- Return LST -- List</p> <p>IN -- Interest OD -- Overdraft</p>					

A MONTHLY BANK STATEMENT

Reconciliation of Bank-Statement Balance and Check-Book Balance.

Upon receiving the monthly bank statement the balance shown upon it should be reconciled with the balance shown on the check record.

As the bank has deducted from the depositor's account only those checks which have been presented for payment, the balance shown by the bank statement may not always be the same as the balance shown on the check record.

The canceled checks should be numerically arranged and compared with the stub bearing the same number in the check book. As each returned canceled check is found to agree with the data on the corresponding stub, it is checked (✓). Those stubs not checked indicate that the checks have not yet been presented to the bank for payment, and the amounts of such checks, therefore, have not been deducted from the depositor's account. The amounts of these checks have, however, been deducted on the check record, and therefore the difference between the bank-statement balance and the check-book balance should equal the sum of the amounts of the uncashed checks. The procedure followed and the statement prepared in proving the

bank-statement balance and the check-book balance are called *the reconciliation of the bank-statement balance and the check-book balance*.

Some banks allow interest to depositors on average daily balances exceeding a certain amount. This interest is added to the depositor's account during the month, and is shown on the monthly bank statement rendered to him at the end of the month, but it has not been considered in arriving at the check-book balance.

To illustrate the method of reconciling the bank-statement balance and the check-book balance, the following will be assumed :

On checking the canceled returned checks with the stubs of the checks issued on July 1 the following checks are found outstanding :

No. 768	\$260.00
No. 910	46.00
No. 911	112.50

The balance per check record on July 1 is \$326.50.

The balance shown by the bank statement on page 142 is \$747.90.

The interest credited on the bank statement is \$2.90.

The following form illustrates a method of arranging the data for reconciling the bank-statement balance with the check-book balance :

RECONCILIATION OF BANK-STATEMENT BALANCE AND CHECK-BOOK BALANCE

June 30, 19—

Balance, per bank statement		\$747.90
Deduct		
Checks outstanding		
No. 768	\$260.00	
No. 910	46.00	
No. 911	<u>112.50</u>	\$418.50
Interest credited by bank in		
June, entered on books in July	<u>2.90</u>	<u>421.40</u>
Balance, per check book		<u>\$326.50</u>

The interest credited on the bank statement is added to the check-book balance, and an entry should be made on the receipt side of the cash journal, debiting *Cash* and crediting *Interest Income*.

Exercise 56. Written

DEPOSIT TICKETS, CHECKS, RECONCILIATION

1. On a sheet of $8\frac{1}{2}'' \times 11''$ paper, rule three deposit tickets of the Buffalo National Bank, similar to the model on page 139. Enter on these tickets the following deposits of William West, of 87 Main St., Buffalo, N.Y. :

JULY 6, 19—		JULY 8, 19—		JULY 12, 19—	
Bills	\$898	Bills	\$300	Bills	\$360
Specie	42	Specie	50	Specie	48
Checks drawn on :		Checks drawn on		Checks drawn on	
Buffalo Nat'l Bank .	100	Buffalo Nat'l .	250	Minn'p'lis Tr.	360
First Nat'l, Boston .	360	St. Louis Nat'l	160	St. Louis Nat'l	270
Sec'd Nat'l, Chicago	150			Buffalo Nat'l	400
Buffalo Nat'l Bank .	200				

2. *a.* On a sheet of $8\frac{1}{2}'' \times 11''$ paper, rule two pages of a check book to be used by William West, similar to the model on page 140. Make each page $5\frac{1}{4}'' \times 9\frac{7}{8}''$. Print on each check form the printed matter which is in the model on page 140, using Buffalo, N.Y., as the name of the city and Buffalo National Bank as the name of the bank.

b. Number the checks 1, 2, 3, and 4.

c. Enter the deposit of July 6, 19—, on the check record.

d. On July 7, issue check No. 1 for \$690.70 to Samuel L. Jones, in full of account. Fill out stub first. Deduct amount of the check from balance on the check record to get the balance.

e. Enter deposit of July 8, 19—, on the check record and add it to the previous balance to get the new balance.

f. Write check No. 2 for \$600 to A. L. Kane, on account; date of check, July 11, 19—. Fill out stub. Deduct the amount of the check from the previous balance on the check record.

g. Enter deposit of July 12, 19—, on the check record and add it to the previous balance to get the new balance.

h. Write check No. 3 for \$0.75 (seventy-five cents) to Buffalo Electric Co., in payment of electric-light bill for month; date of check, July 13, 19—. Fill out stub. Deduct the amount of the check from the previous balance on the check record.

This amount should be written in figures on the check, " $\frac{75}{100}$ "; and in words "Seventy-five cents only."

i. Write check No. 4 for \$897.50 to William Anderson, in payment of our note due today, July 14, 19—. Fill out stub. Deduct the amount of the check from the previous balance on the check record.

3. Prepare a reconciliation of the bank-statement balance and the check-book balance according to the form on page 143, using the following data:

At the end of July the check-book balance was \$1399.

The bank-statement balance on July 31 was \$1680.

On checking the canceled checks returned with the statement, it was found that the following checks were not returned:

No. 15	\$41	No. 24	20
No. 23	90	No. 25	130

4. Prepare a reconciliation of the bank-statement balance and the check-book balance for the following data:

On Aug. 31, the check-book balance was \$775.22.

The bank-statement balance was \$770.14.

Checks not returned:

No. 78

\$48

The interest credited on the bank statement was \$1.12.

Check of Robert Williams, deposited by us on Aug. 27, 19—, in the sum of \$54.20, was returned, marked "No Funds." The bank has deducted the amount from our balance. Deduct this amount from the balance on the check record.

When this check was received from Robert Williams, *Cash* was debited and *Robert Williams* was credited. Inasmuch as this check is worthless, an entry should be made in the cash journal debiting *Robert Williams* and crediting *Cash*.

INVOICE

Purchase Invoice. The seller of the goods makes out an invoice at the time of shipment and sends it through the mail to the purchaser.

The following model illustrates a simple form of an *invoice*:

A. L. LANGE COMPANY 1725 CENTRAL AVE. DETROIT, MICHIGAN							
Sold to Smith & Smith 60 Rogers Ave. Cleveland, Ohio				Date 1/7/19— Your Order No. 356 Shipped by Fr., Prepaid Terms 30 da.			
Quantity	Catalogue Number	Article	Unit Price	Amount	Total		
1	#278	Magee Stove	175 00	175 00			
2	Model C	Crawford Range	225 00	450 00	625 00		

AN INVOICE

When the purchaser receives the goods, they are checked with the invoice for the quality and quantities actually received.

After the invoice has been checked, it is entered in the purchases journal as a debit to *Merchandise Purchases* and as a credit to *A. L. Lange Co.*

Sales Invoice. When goods are sold, an invoice is made out showing the details of the sale.

The invoice serves as a basis for the entry in the sales journal of the vendor where the total of the invoice is debited to the customer's account and is credited to the *Merchandise Sales* account.

Many forms of invoice are used, but they differ only in minor details of content and arrangement. All invoices should contain the name and address of the vendor (the person who sells the merchandise), the date of the sale, the name and address of the person to whom sold, the terms of payment, and how shipped.

Freight Terms. The freight on goods bought may be paid by either the buyer or the seller of the goods, depending upon the agreement between the parties. When the goods are bought "f.o.b. destination" (free on board the freight car), the shipper pays the freight to the destination. When goods are bought "f.o.b. shipping point," the purchaser of the goods pays the freight. The freight on goods shipped "f.o.b. destination" may be prepaid (paid in advance) by the shipper, or it may be paid by the purchaser and deducted by him when he pays the shipper for the invoice.

Detroit, Mich. <u>January 14, 19--</u>	
Received of	<u>Smith & Smith</u>
	<u>Five hundred</u> ^{no} / ₁₀₀ <u> </u> Dollars
	<u>on account</u>
<u>\$ 500⁰⁰</u>	<u>A. L. Lange Co.</u>

A RECEIPT

Receipt. When money or any other value is given in payment of an invoice or bill, a written acknowledgment of receiving such money or value is frequently given. Such a written acknowledgment is called a receipt. The model above shows a common form of receipt.

In many business houses, receipts are not given for payments made by checks unless specifically requested.

CASH REPORTS

Daily-Cash Proof. At the close of each day's business, it is advisable that the amount of cash on hand and on deposit should be proved with the amount called for by the cash journal. The procedure to be followed in thus checking the actual amount of cash on hand and on deposit with what should be on hand is as follows:

1. The difference between the sum of the amounts in the Cash Debit column of the cash journal and the sum of the amounts in the Cash Credit column is the amount of cash which should be on hand, according to the cash journal.

2. The money in the cash register should be counted and its sum should be added to the balance on deposit in the bank. The sum of these two items should equal the amount of cash called for by the cash journal.

3. If all cash received were deposited daily, and all payments were made by check, the balance of the check record should agree with the amount called for by the cash journal.

Under general conditions, a bank account should always be kept, but if it is not, the cash in the cash register should equal the amount called for by the cash journal.

The above form of a *daily-cash proof or report* is suggested for use.

In counting the cash on hand at the close of each day the form at the right may be used.

In making payments by cash the largest possible denominations should be used. For example, in making a payment of \$188.92, the following denominations should be used: one \$100 bill, one \$50

bill, one \$20 bill, one \$10 bill, one \$5 bill, one \$2 bill, one \$1 bill, one 50-cent piece, one 25-cent piece, one 10-cent piece, one 5-cent piece, and two 1-cent pieces.

DAILY-CASH REPORT		
Name	<i>J. B. Brown</i>	
Date	<i>December 10, 19--</i>	
Cash Received per Cash Journal	<i>5760</i>	<i>50</i>
Cash Paid per Cash Journal	<i>4382</i>	<i>30</i>
Balance per Cash Journal	<i>1378</i>	<i>20</i>
Cash on Hand per Register	<i>352</i>	<i>20</i>
Cash on Deposit per Check Record	<i>1026</i>	<i>00</i>
Total	<i>1378</i>	<i>20</i>

A DAILY-CASH REPORT

CASH ON HAND		
December 10, 19--.		
DENOMINATION	NUMBER	AMOUNT
Currency		
\$100.00	-	-
50.00	-	-
20.00	-	-
10.00	-	-
5.00	-	-
2.00	-	-
1.00	-	-
Coin		
\$1.00	-	-
.50	-	-
.25	-	-
.10	-	-
.05	-	-
.01	-	-
Checks		
Name		
-	-	-
-	-	-
-	-	-

A FORM OF CASH RECORD

Exercise 57. Written

INVOICES, RECEIPTS, CASH REPORTS

Make out the following business forms on slips of paper ruled the same as the models shown on pages 145-147:

①. An invoice for the purchase in Set I, page 97, under date of Feb. 2.

2. An invoice for the sale in Set I, page 97, under date of Feb. 9.

③. A receipt for the payment made by William Johnson in Set I, page 98, under date of Feb. 17.

4. A receipt for the payment made to John D. Rice in Set I, page 98, under date of Feb. 20.

⑤. A cash-report sheet for recording the cash on hand in the business of M. R. Rogers on June 30, 19—. The total cash received, per cash journal, was \$4722.50; the total cash paid was \$3608.92; the check record showed a balance on deposit of \$629.22; and there was \$484.36 in the cash register.

6. A cash-count sheet to record the details of the money in the cash register, \$484.36, which consisted of the following: one \$100 bill, one \$50 bill, four \$20 bills, ten \$10 bills, thirteen \$5 bills, three \$2 bills, twenty-two \$1 bills, two \$1 coins, nine 50-cent pieces, fourteen 25-cent pieces, twenty 10-cent pieces, twenty-four 5-cent pieces, thirty-four 1-cent pieces, and a check from William Stair for \$47.82.

Exercise 58. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *bank, savings bank, commercial bank.*
2. Explain the procedure to be followed in opening a bank account.
3. Describe a deposit ticket and explain its use.
4. What is the purpose of the bank pass book? To what group of books does it belong? What are the names of the other general groups of books?
5. Explain the various points to be observed in writing a check.
6. What is the purpose of a monthly bank statement? of the reconciliation of the bank-statement balance and the check-book balance? Explain the procedure to be followed in making such a reconciliation.
7. Explain the meaning of the terms *f.o.b. destination* and *f.o.b. shipping point.*
8. How would you satisfy yourself that all the cash is on hand which should be on hand at the close of a day?

CHAPTER XIV

SET II. AUTOMOBILE-TIRE BUSINESS

Object of Set. The object of this set is to apply to the transactions occurring in an automobile-tire business the principles discussed up to this point, relating to the use of different books and accounts. If desired, some of the usual business forms may be used, so that the student may understand their relationship to the business transaction. Imitation paper money may also be handled in all transactions involving cash.

Books Used. The books which are to be used are the general journal, cash journal, purchases journal, sales journal, and ledger. The general journal, cash journal, purchases journal, and sales journal are in Blank A and the ledger in Blank B.

The student is assumed to be acting as bookkeeper for the business.

Business Forms. All business forms handled are either *incoming papers* or *outgoing papers*. Incoming papers are those received from others; outgoing papers are those given to others. Incoming papers will be received and recorded by the student as in business, and he will issue and record all outgoing papers as in business.

In recording the transactions great care should be taken in making the entries so that errors may be reduced to a minimum. In case an error is made, the correction should be made in accordance with the suggestions made in Chapter VIII. *In no case* should any amount entered in the books be erased.

Frequent reference should be made to the model journals and model ledger, as they are in accord with the best practice as to form of entry, size of figures, and general appearance.

Incoming Business Forms for March. All incoming business forms for March are indicated below for the following reasons:

1. The text is complete in itself and, if so desired, may be used without the incoming business forms.

2. Since the text is complete within itself, all material is immediately at hand for reference, for class drills and discussion, for reviews during the progress of the set or when the set is finished.

A tablet, separate from the text, containing all the incoming business forms referred to in the following list is available for use with this set when business practice is used.

The set may therefore be written in any of the following ways:

1. The transactions may be recorded without the use of business forms.

2. The transactions may be recorded, and business forms may be used.

3. The general business routine connected with the business, such as the handling of cash, the proving of cash at the close of each day, etc., may be transacted in addition to the recording of the transactions, and the using of the business forms.

In the box of business forms there are blank invoices, checks, notes, etc. sufficient in number to make all necessary outgoing papers. In addition there are filing envelopes in which the various business papers may be kept. Instructions for the filing of each business paper are given but once, it being assumed that the student will thereafter know how to dispose of each paper properly. When the entry has been made, the student should file the business form in the proper envelope.

Business currency may be secured for use with these sets if desired.

Form 1. Receipt of Joseph A. Rush, March 2, in your favor, for rent of store for March, \$75.

Form 2. Bill of the Arthur Coal Co., City, for 3 T. coal at \$9.50, March 3. Terms: cash.

Form 3. Invoice of Creed Tire Manufacturing Co., Canton, Mass., March 3. Terms: cash.

6 31 × 4 Light Cord @ \$15.00	8 34 × 4 Light Cord @ \$18.00
4 32 × 4 Light Cord @ 16.60	5 32 × 4½ Light Cord @ 21.50
5 32 × 4 Heavy Cord @ 19.50	5 33 × 4½ Light Cord @ 22.00
10 33 × 4 Light Cord @ 17.40	5 34 × 4½ Light Cord @ 22.60

Form 4. Bill of M. L. Harris, City, for office stationery and supplies, \$22.75, March 8. Terms: cash.

Form 5. Bill of Bruce Furniture Co., for office furniture and equipment, \$200, March 9. Terms: cash.

Form 6. Invoice of Peerless Co., Malden, Mass., March 10. Terms: 5 da.

5 31 × 4 Heavy Cord @ \$18.25	5 34 × 4 Heavy Cord @ \$21.20
5 33 × 4 Heavy Cord @ 20.60	10 32 × 4½ Heavy Cord @ 24.60
5 33 × 4½ Heavy Cord @ \$25.20	

Form 7. Check of Wilson & Wilson, Newport, R. I., for \$204, in your favor, March 12.

Form 8. Note of A. L. Chase, Pawtucket, R. I., for \$196, in your favor, due in 10 da., payable at your office, with interest at 6 %, March 16.

Form 9. Invoice of Creed Tire Manufacturing Co., Canton, Mass., March 17. Terms: cash.

5 34 × 4 Light Cord @ \$18.00	5 33 × 4½ Light Cord @ \$22.00
5 34 × 4 Heavy Cord @ 21.20	10 34 × 4½ Light Cord @ 22.60
5 32 × 4½ Light Cord @ 21.50	5 34 × 4½ Heavy Cord @ 26.20

Form 10. Invoice of W. H. Wells, Watertown, Mass., March 22. Terms: 15 da.

6	31 × 4	Tubes @	\$2.45
6	32 × 4	Tubes @	2.55
6	33 × 4	Tubes @	2.70
12	34 × 4	Tubes @	2.80
12	32 × 4½	Tubes @	3.40
6	33 × 4½	Tubes @	3.70
6	34 × 4½	Tubes @	3.80

Form 11. Invoice of Peerless Co., Malden, Mass., March 24. Terms: 10 da.

6	34 × 4	Light Cord @	\$18.00
6	33 × 4½	Light Cord @	22.00
4	33 × 4½	Heavy Cord @	25.20

108.
132
100 80
4-08

Form 12. Check of M. A. Carter, Attleboro, Mass., for \$172.50, in your favor, March 26.

Form 13. Check of A. L. Chase, Pawtucket, R. I., for \$196.33, in your favor, March 26.

Form 14. Check of W. L. Strong, City, for \$237.90, in your favor, March 29.

Form 15. Invoice of Creed Tire Manufacturing Co., Canton, Mass., March 30. Terms: cash.

4	32 × 4	Light Cord @	\$16.60
4	32 × 4	Heavy Cord @	19.50

Opening the Ledger. Open the following accounts in the ledger, in the order given, placing four accounts on a page:

Cash	Accounts Payable ²
Notes Receivable	Creed Tire Manufacturing Co.,
Accounts Receivable ¹	Canton, Mass.
A. L. Ames, Providence, R. I.	Peerless Co., Malden, Mass.
Thomas Blake, Fall River, Mass.	W. H. Wells, Watertown, Mass.
M. A. Carter, Attleboro, Mass.	C. M. Finch, Investment
A. L. Chase, Pawtucket, R. I.	C. M. Finch, Drawing
George Jones, Worcester, Mass.	Profit and Loss
W. L. Strong, Providence, R. I.	Merchandise Sales
Wilson & Wilson, Newport, R. I.	Interest Income
Merchandise Inventory	Merchandise Purchases
Furniture and Furnishings	Rent Expense
Fuel Inventory	Salary
Office Supplies Inventory	Fuel
Notes Payable	Office Supplies
	Interest Expense

In opening the ledger the accounts are arranged in the order in which they will be used in preparing the balance sheet and the profit and loss statement.

¹ Do not write *Accounts Receivable* in the ledger.

² Do not write *Accounts Payable* in the ledger.

MEMORANDA OF TRANSACTIONS FOR MARCH

March 1, 19—. Charles M. Finch, Providence, R. I., begins the automobile-tire business, investing cash, \$2000.

Place the above memorandum in the journal, but make no journal entry. Make the proper entry in the cash journal. If business currency is used, receive the currency from the instructor and put it in the *Business Cash* envelope.

If business practice is not used, all directions and references to various business forms may be disregarded.

1. Deposit in the City Bank, \$1500.

Read pages 138-140 for instructions.

Mr. Finch is introduced to the cashier of the City Bank by a friend, and a checking account is opened. The following signature should be used in signing the signature card and subsequent checks:

C. M. Finch
Per (Student's Name)

The signature card for the bank's files should be made out and placed in the *Bank* envelope.

Make out a deposit ticket. Hand currency and the deposit ticket to the person receiving the deposit for the bank. This person will write the name *C. M. Finch* on the outside cover of a bank pass book and will record the following on the first ruled page: "19—

"Mar. 1 Deposit 1500."

The pass book will then be given the student, who should place it in the *Bank* envelope. It should be taken to the bank whenever deposits are made.

Record the deposit on the check record.

2. Pay Joseph A. Rush cash, for rent of store at 16 Aborn St. for March, \$75.

Pay the money and make the entry in the cash journal. The receipt, Form 1, given by Mr. Rush is as follows:

Remove this receipt from the tablet of incoming papers and place it in the *Receipts and Paid Items* envelope.

Providence, R. I. <u>March 2, 19—</u>	
Received of <u>C. M. Finch</u>	
<u>Seventy-five</u> ^{no} / ₁₀₀	Dollars
<u>Rent of store for March</u>	
<u>\$75.00</u>	<u>Joseph A. Rush</u>

A RECEIPT

3. Pay the Arthur Coal Co., City, by check, for coal as per bill, Form 2.

Remove this bill from the tablet. Verify the extension. If correct, write a check. Fill out the stub in the check book, No. 1. (See model script check book, p. 140.) Detach the check and make the entry in the cash journal.

The canceled check, when returned by the bank, will be a receipt; but if the instructor so desires, a regular receipt may be taken and filed.

Record the date, check number, and amount of the check in the check record and extend the balance into the balance column of this check record. Follow the model on page 141. Place the check in the *Outgoing Papers* envelope.

3. Buy of the Creed Tire Manufacturing Co., Canton, Mass., for cash, tires as per invoice, Form 3.

Make the proper entry in the purchases journal.

Place the invoice in the *Invoices of Merchandise Purchased — Unpaid* envelope.

Do not enter in the cash journal until the actual payment is made. The payment of an invoice within 10 days is often considered as cash.

4. Pay the Creed Tire Manufacturing Co. by check, for above invoice.

Write the check and enter the proper data in the check record, similar to the entries made for check No. 1. Make the proper entry in the cash journal.

Transfer the invoice to the *Receipts and Paid Items* envelope.

5. Sell to A. L. Ames, City, for cash:

4 31 x 4 Light Cord @ \$18.90 4 33 x 4 Light Cord @ \$21.75
4 33 x 4½ Light Cord @ \$27.50

Make out an invoice and receipt it, and then record in both sales journal and cash journal. Place no check marks on invoices of goods sold. Receive the cash, count it carefully, and place it in the *Business Cash* envelope.

File the receipted invoice in the *Outgoing Papers* envelope.

<p style="text-align: center;">Charles M. Finch 16 Aborn Street Providence, Rhode Island</p>						
<p><i>Sold to</i> A. L. Ames City</p>				<p>Invoice No. 1 Date March 5, 19--. Terms Cash</p>		
QUANTITY	SIZE	ARTICLE	UNIT PRICE	AMOUNT	TOTAL	
4	31 x 4	Light Cord Tires	18 90	75 60		
4	33 x 4	Light Cord "	21 75	87 00		
4	33 x 4½	Light Cord "	27 50	110 00		272 60
<p>Received payment, March 5, 19--.</p> <p style="text-align: center;"><i>C. M. Finch</i> Per <u>Student</u></p>						

(6) Deposit in the City Bank, \$450.

Make out the deposit ticket. Record it on the check record. Place the currency and the deposit ticket in the pass book and hand it to the person receiving the deposit for the bank.

6. Pay Student, the bookkeeper, cash, for services for week, \$18.

8. Pay M. L. Harris, City, cash, for office stationery and supplies as per bill, Form 4.

Verify the items and extensions. Pay the cash. File the bill in the *Receipts and Paid Items* envelope.

9. Sell to Wilson & Wilson, Newport, R.I., at 10 da.:

4 34 × 4 Light Cord @ \$22.50 4 34 × 4½ Light Cord @ \$28.50

Write the invoice but do not receipt it.

File the invoice in the *Outgoing Papers* envelope.

9. Pay Bruce Furniture Co., City, by check, for office furniture and equipment as per bill, Form 5.

10. Buy of Peerless Co., Malden, Mass., at 5 da., tires as per invoice, Form 6.

Post all books of original entry to the ledger.

In actual business the books of original entry are posted daily. By so doing the customers' and creditors' accounts are always up to date.

(11) Sell to A. L. Chase, Pawtucket, R.I., at 5 da.:

4 34 × 4 Light Cord @ \$22.50 4 34 × 4 Heavy Cord @ \$26.50

12. Receive of Wilson & Wilson the following check, Form 7, in payment of the invoice of March 9:

No. <u>7</u>	NEWPORT, R. I. <u>March 12, 19</u>
EXCHANGE NATIONAL BANK	
PAY TO THE ORDER OF <u>C. M. Finch</u>	\$ <u>204.00</u>
<u>Two hundred four</u> ^{no} / ₁₀₀ DOLLARS	
<u>Wilson & Wilson</u> Per <u>F. M. Wilson</u>	

A CHECK

(12) Deposit in the City Bank the check of Wilson & Wilson.

Indorse the check before depositing it.

Use a full indorsement.

13. Give Peerless Co. a note dated March 13, due in 15 da., with interest at 6%, for the amount of the invoice of March 10.

Write the note, payable at *my office*. It will be similar to the script note payable given on page 108. Sign the note for Mr. Finch.

Make the entry in the general journal.

File the note in the *Outgoing Papers* envelope.

13. Pay Student cash, for services for week.

13. C. M. Finch withdraws cash, for personal use, \$40.

Why is this withdrawal not chargeable to Mr. Finch's *Investment* account?

15. Sell to Thomas Blake, Fall River, Mass., at 30 da.:

2 32 × 4 Light Cord @ \$20.75	4 32 × 4½ Light Cord @ \$26.80
4 32 × 4 Heavy Cord @ 24.75	4 32 × 4½ Heavy Cord @ 30.75

16. Receive of A. L. Chase his note for \$196, dated March 16, due in 10 da., with interest at 6%, for invoice of March 11, Form 8.

File the note in the *Notes Receivable* envelope.

17. Buy of the Creed Tire Manufacturing Co., for cash, tires as per invoice, Form 9.

18. Pay the Creed Tire Manufacturing Co. by check, for above invoice.

19. Sell to A. L. Ames, for cash:

4 33 × 4 Light Cord @ \$21.75	4 32 × 4½ Heavy Cord @ \$30.75
-------------------------------	--------------------------------

Receive the cash and proceed as in a similar transaction on March 5.

20. Pay Student cash, for services for week.

20. Deposit in the City Bank, \$200.

Post all books of original entry to the ledger.

22. Sell to Wilson & Wilson, at 10 da.:

4 34 × 4 Light Cord @ \$22.50	2 34 × 4 Heavy Cord @ \$26.50
-------------------------------	-------------------------------

22. Buy of W. H. Wells, Watertown, Mass., at 15 da., tubes as per invoice, Form 10.

23. Sell to George Jones, Worcester, Mass., at 10 da.:

4 33 × 4½ Light Cord @ \$27.50	4 33 × 4½ Heavy Cord @ \$31.50
4 33 × 4½ Tubes @ \$4.95	

24. Buy of Peerless Co., at 10 da., tires as per invoice, Form 11.

25. Sell to M. A. Carter, Attleboro, Mass., for cash:

2 32 × 4 Light Cord @ \$20.75	4 33 × 4 Heavy Cord @ \$25.75
4 32 × 4 Tubes @ 3.40	4 33 × 4 Tubes @ 3.60

41.50
98.
20.726
1.2300
270.22

26. Receive of M. A. Carter his check, Form 12, for above invoice.
 26. Receive of A. L. Chase his check, Form 13, in payment of his note dated March 16.

Mark the note "Paid March 26, 19—" and file in the *Outgoing Papers* envelope.

\$196 ⁰⁰	PAWTUCKET, R.I.	March 16, 19--
Ten days	AFTER DATE	I PROMISE TO PAY TO
THE ORDER OF	C. M. Finch	
One hundred ninety six	no. 100	DOLLARS
AT	his office, with interest at 6%	
VALUE RECEIVED		
No. 8	DUE March 26, 19--	A. L. Chase

A PAID NOTE

(26) Deposit in the City Bank the checks of M. A. Carter and A. L. Chase.

27. Pay the Peerless Co. by check, for our 15-day note and interest due March 28.

Since this note falls due on Sunday, March 28, it is legally due on Monday, March 29. In order that the Peerless Co. will receive the check on March 29, it should be sent on Saturday, March 27.

Remove the note from the *Outgoing Papers* envelope, have the instructor mark it "Paid," and file it in the *Receipts and Paid Items* envelope.

27. Pay Student cash, for services for week.

29. Sell to W. L. Strong, City, for cash:

6	33 × 4½	Light Cord	@	\$27.50
2	33 × 4½	Heavy Cord	@	31.50
2	33 × 4½	Tubes	@	4.95

29. Receive of W. L. Strong his check, Form 14, for above invoice.

(29) Deposit in the City Bank the check of W. L. Strong.

30. Buy of the Creed Tire Manufacturing Co., for cash, tires as per invoice, Form 15.

30. Pay the Creed Tire Manufacturing Co. by check, for above invoice.

31. Pay Bowen Dry Goods Co. by check, for household bill of C. M. Finch, \$55.28.

This is a personal bill of Mr. Finch.

Complete the posting of all items in the books of original entry to the ledger.

Inventories. The Merchandise Inventory on hand is \$1351.15 and has been taken at cost price.

The inventory was taken on a form ruled specially for this purpose, as illustrated below :

INVENTORY _____		Page _____	
Sheet No. _____		Priced By _____	
Called By _____	Department _____	Extended By _____	
Entered By _____	Location _____	Examined By _____	

Quantity	Description	Cost Price	Extension	✓
2	31 x 4 Light Cord Tires	15 00		
4	32 x 4 Light Cord Tires	16 60		
2	33 x 4 Light Cord Tires	17 40		
7	34 x 4 Light Cord Tires	18 00		
6	32 x 4½ Light Cord Tires	21 50		
2	33 x 4½ Light Cord Tires	22 00		
11	34 x 4½ Light Cord Tires	22 60		
5	31 x 4 Heavy Cord Tires	18 25		
5	32 x 4 Heavy Cord Tires	19 50		
1	33 x 4 Heavy Cord Tires	20 60		
4	34 x 4 Heavy Cord Tires	21 20		
2	32 x 4½ Heavy Cord Tires	24 60		
3	33 x 4½ Heavy Cord Tires	25 20		
5	34 x 4½ Heavy Cord Tires	26 20		
6	31 x 4 Tubes	2 45		
2	32 x 4 Tubes	2 65		
2	33 x 4 Tubes	2 70		
12	34 x 4 Tubes	2 80		
12	32 x 4½ Tubes	3 40		
6	34 x 4½ Tubes	3 80		

AN INVENTORY OF MERCHANDISE

If desired, the instructor may ask the student to copy the above data on an inventory sheet, make the extensions, and verify the total of merchandise on hand.

Fuel Inventory

1 T. Coal @ \$9.50

Office Supplies Inventory

Stationery and Office Supplies, \$10

The furniture and furnishings are valued at the cost price, \$200.

Closing the Set. Rule, foot, and post the totals of the purchases, sales, and cash journals.

Foot, in pencil, all accounts having more than one item. Pencil footings should be very small.

Take a trial balance of the ledger, omitting all accounts that balance. Record it in Blank A on the page indicated by the index.

It may be advisable to have the trial balance taken and checked on loose sheets of paper before it is recorded in the bound book.

Hand the books to the instructor for inspection and approval.

Prepare a profit and loss statement and a balance sheet, and record them in Blank A on the pages indicated by the index.

Close the ledger.

Be certain to make and post the adjusting entries involving *Office Supplies Inventory* and *Fuel Inventory*.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

Exercise 59. Written

MONTHLY BANK STATEMENT

1. Make out the monthly bank statement for Set II. If business practice was used, use the monthly bank-statement form which was included with the business papers; if business practice was not used, rule a form, following the model on page 142.

The deposits made and checks issued during the month may be obtained from the check record; or, if this record was not kept, from the memoranda of transactions for March.

The following checks were unpaid at the end of the month:

CHECK No.	DATE	AMOUNT
6	3/30	\$144.40
7	3/31	55.28

2. Prepare a reconciliation of bank-statement balance and check-book balance.

CHAPTER XV

ADDITIONAL BUSINESS FORMS AND ACCOUNTS

Purchase Order. All purchases should be made by written order called a *purchase order*. The following model illustrates a simple form of purchase order :

SMITH & SMITH 60 Rogers Avenue Cleveland, Ohio			
PURCHASE ORDER			
			No. 356
			January 6, 19--.
To	A. L. Lange Co., 1725 Central Ave., Detroit, Michigan.		
Please ship us by freight, prepaid to the above address, the following merchandise at prices stated			
Quantity	Catalogue Number	Article	Unit Price
1	#278	Magee Stove	175 00
2	Model C	Crawford Range	225 00
Show this purchase-order number on your invoice and on all packages and boxes.			
Smith & Smith Per <i>H. Q. Smith</i>			

A PURCHASE ORDER

NOTE. When the freight charges are paid by the shipper of the goods, the freight is said to be prepaid.

This purchase order is often made in duplicate on a typewriter by the purchaser. A sheet of carbon paper, copying side down, is placed between the two copies of the purchase order. The typed copy of the purchase order is called the original copy; the carbon copy, the duplicate copy. If a typewriter is not used, a pencil may be used, in which case the first, or pencil, copy would be called the original copy.

The original is sent to the firm from whom the goods are purchased, and the duplicate is filed in the purchaser's office according to number. No entry is made when the purchase order is issued.

When the invoice of goods ordered is received, it is compared with the duplicate purchase order to see that the shipment is in accordance with the order. When the goods arrive, they are checked against the invoice to see that the proper quantities and qualities have been received. The proper entry is then made in the purchases journal.

Invoices in Duplicate. Invoices of goods sold are frequently made in duplicate by using carbon paper. The original is sent to the customer, and for reference purposes the duplicate may be filed in the office under the customer's name.

Freight and Cartage In. Freight paid by the purchaser on merchandise purchased and the cartage expenses incurred in hauling the merchandise from the freight stations to the store are both items which add to the cost of the goods purchased. A separate account called *Freight and Cartage In* is opened to record the total cost of transporting merchandise purchased to the store door. At the end of the period the total of this account is closed into the *Merchandise Purchases* account in order to obtain the total cost of the goods which were purchased.

If a business owns an auto truck and does its own carting, the account may be called *Freight In*.

Bills of Lading. A *bill of lading* is a receipt of a transportation company, containing an account of the goods shipped and the conditions of shipment.

As a means of serving the convenience of both the shippers and the railway companies, the Interstate Commerce Commission approved a uniform bill of lading for general use, June 27, 1908. This approval applies to two forms of the bill of lading, as follows: the *straight* bill of lading and the *order* bill of lading. At present only the straight bill of lading is considered.

The straight bill of lading is drawn up in a set of three papers, duplicates being made by using carbons, as follows: the straight bill of lading, original; the shipping order; the memorandum, an acknowledgment that a bill of lading has been issued. *This form is not negotiable* and must be printed on white paper. The shipping order is signed by the shipper only, while the others are signed by both the shipper and the agent of the railway company. The shipping order is left with the agent; the bill of lading is sent to the purchaser of the goods; the memorandum is retained by the seller.

As the bill of lading is drawn up in triplicate, each party — the shipper, the transportation company, and the consignee — has an exact copy of the receipt.

Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

THIS MEMORANDUM is an acknowledgment that a Bill of Lading has been issued and is not the Original Bill of Lading, nor a copy or duplicate, covering the property named herein, and is intended solely for filing or record.

Shipper's No. 1532

Agent's No. B3420

Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

(PRESCRIBE)
THIS SHIPPING ORDER

gibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No. 1532

Agent's No. *B3420*

Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

Shipper's No. 1532

Agent's No. B3420

ORIGINAL--NOT NEGOTIABLE

MINNEAPOLIS, ST. PAUL & SAULT STE. MARIE RAILWAY COMPANY

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

at Worcester, Mass. May 8, 192—

from the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted by himself and his assigns.

Mail or street address of consignee — For purposes of notification only.

Consigned to W. H. Richards & Co.

Destination Detroit State of Michigan County of _____

Notify _____

At _____ State of _____ County of _____

Route _____

Car Initial _____ Car No. _____

(Delivering carrier)

[illegible]

* If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

NOTE. Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding

D67

J. D. Allen Shipper Charles A. Lane Agent

Per

P

Permanent post-office address of shipper

Worcester, Mass.

Cartage Out. The expenses connected with delivering to shipping depots the merchandise sold to out-of-town customers are frequently recorded under an account called *Cartage Out*. Sometimes a business owns the carting or delivery equipment itself, thereby doing its own drayage, and frequently a business hires a carting or trucking company to do its drayage. If the business owns its own delivery equipment, the expenses of operation and repairs are usually charged to an account called *Delivery Expense*.

The cost of delivery equipment is recorded in an account called *Delivery Equipment* or *Auto Trucks*.

If goods are sold "f.o.b. destination," it means that the freight is paid by the shipper to the point of delivery. In such a case the account with *Cartage Out* might be changed to *Freight and Cartage Out* or two separate accounts might be kept, one with *Freight Out* and one with *Cartage Out*.

The phrase "f.o.b. shipping point" means that the purchaser pays all transportation charges from the point of shipment.

Purchases Returns and Allowances. Merchandise purchased may be returned on account of some defect in the merchandise, a shortage, or damage done in transit. If not actually returned, claims for allowance may be made. To illustrate, T. M. Lyons & Co. bought merchandise of A. M. Mason on March 4, amounting to \$600.

The entry in the purchases journal would be as follows:

DATE	F.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.	TOTAL
Mar. 4		A. M. Mason	67 Main St.	30 da.	600 —	

Upon the receipt of the merchandise, T. M. Lyons & Co. found that merchandise invoiced at \$100 was defective, and it was, therefore, returned. The following entry is made in the general journal:

6					
A. M. Mason		100	—		
Merchandise Purchases				100	—
To record return of defective goods to A. M. Mason from invoice of 3/4.					

A new account called *Purchases Returns and Allowances* may be used to record these returns, although when the number of returns or allowances is not great, they may be recorded satisfactorily as a credit to the *Merchandise Purchases* account.

In this text, the separate account with *Purchases Returns and Allowances* is hereafter used to record such returns, so the above entry would appear as follows :

6					
A. M. Mason		100	—		
Purchases Returns and Allowances				100	—
To record return of defective goods					
to A. M. Mason from invoice of 3/4.					

The *Purchases Returns and Allowances* account will always show a credit balance. However, it is not an income account, since it is kept merely to record returns of, and allowances on, purchases. *Purchases Returns and Allowances* therefore appears in a classification of accounts immediately after *Merchandise Purchases*, and at the close of each fiscal period the *Purchases Returns and Allowances* account is closed into *Merchandise Purchases* in order to obtain the net purchases.

Credit Memorandum. If a claim for an allowance were made, no entry would be made until notice was received that it was allowed. A copy of the letter to the shipper in which the claim for allowance is made is usually kept on file. Other data relative to the claim for allowance are also kept by the person making such claim so that he may be certain to have complete information relative to it. Notice of an allowance on goods granted by the shipper usually comes from the shipper on a form called a *credit memorandum*, similar to the following :

<p>William Jones & Company</p> <p>181 North Street, Boston, Mass.</p> <p>CREDIT MEMORANDUM</p> <p style="text-align: right;">June 12, 19--.</p>				
<p>To John H. Drury,</p> <p>68 Center St.,</p> <p>Lynn, Mass.</p>				
<p><i>We credit your account for the following</i></p>				
Date of Invoice	Invoice Number	Description of Adjustment	Amount	Total Credit
6/8/--	678	Damage to 6 Oak Tables	30 00	
6/8/--	678	Damage to 1 Mahogany Table	10 00	40 00

From this form an entry would be made in the general journal of John Drury, as follows:

12					
William Jones & Co.		40	—		
Purchases Returns and Allowances				40	—
To record allowance on invoice of 6/6, per credit memorandum received today.					

If the separate account for *Purchases Returns and Allowances* were not used, *Merchandise Purchases* would be credited for the amount of the allowance.

Sales Returns and Allowances. Merchandise sold may be returned on account of some defect, shortage, or damage done in transit. If not actually returned, allowances may be made to the customer. To illustrate, merchandise was sold by Bliss & Co. to John Williams, Pittsfield, Mass., on March 23, amounting to \$620. The following entry was made in the sales journal of Bliss & Co.:

DATE	F.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.	TOTAL
Mar. 23		John Williams	Pittsfield, Mass.	20 da.	620 —	

Upon receipt of the merchandise on March 25, John Williams found that merchandise invoiced at \$250 was defective, and it was therefore returned. The following entry is made in the general journal of Bliss & Co.:

25					
Merchandise Sales		250	—		
John Williams				250	—
To credit John Williams for defective merchandise returned by him from invoice of 3/23.					

A separate account is often used to record returns and allowances on sales. This account is called *Sales Returns and Allowances*. In this text, the separate account with *Sales Returns and Allowances* is hereafter used to record such returns, so the above entry would appear as follows:

25					
Sales Returns and Allowances		250	—		
John Williams				250	—
To credit John Williams for defective merchandise returned by him from invoice of 3/23.					

The *Sales Returns and Allowances* account will always show a debit balance. However, it is not an expense account, since it is kept merely to record returns of, and allowances on, sales. *Sales Returns and Allowances* therefore appears in a classification of accounts immediately after *Merchandise Sales*, and at the close of each fiscal period the *Sales Returns and Allowances* account is closed into *Merchandise Sales* in order to obtain the net sales.

A credit memorandum would be sent by Bliss & Co. to John Williams, similar to the one illustrated on page 163.

Monthly Statement of Account. It is a common practice for merchants to send to each of their customers at the close of the month a statement showing the balance remaining unpaid on the first of the month, the debits and credits to the accounts during the month, and the balance at the end of the month. Such a summary is called a *monthly statement of account*. The following illustrates one form of a monthly statement.

The June 1 item "Balance, per statement rendered" makes unnecessary a repetition of the debit and the credit items on the following statement:

WARREN & KING							
WORCESTER, MASS.							
Allen & Co., 1020 Carter St., Fitchburg, Mass.				July 1, 19--.			
June	1	Balance, per statement rendered	480	45			
	5	To Merchandise	281	40			
	10	To Merchandise	672	00			
	22	To Merchandise	140	00	1573	85	
Cr.							
June	5	By Cash	224	00			
	7	By Returned Merchandise	16	80			
	12	By Cash	273	00			
	24	By Cash	140	00	653	80	
		Balance due			920	05	

A MONTHLY STATEMENT OF ACCOUNT

The monthly statement is an abstract of the customer's account taken from the creditor's books. When the customer receives the monthly statement, he should check it very carefully with the creditor's account on his books. If they do not agree, steps should be taken immediately to locate the difference and have it adjusted.

Standard Invoice Form. In 1921 a national standard invoice form prepared under the direction of the National Association of Purchasing

Agents was adopted and recommended to the membership of several of the largest trade organizations in this country, and since then it has been approved and adopted for use by many other trade associations. In 1925 this form was officially indorsed by a national conference held in Washington, D. C., under the auspices of the Division of Simplified Practice, Department of Commerce.

Facsimile of the National Standard Invoice Form

National Association of Purchasing Agents
Woolworth Building, New York

Customer Ord. No. & Date Requisition No. Contract No. Shipped To Destination	Invoice Date Invoice No. Shipper's Order No.	column reserved for use of customer. P. A. Invoice No. Voucher No.
---	--	--

Terms:
 Net Cash

CHECKED
 With order
 F. O. B. point
 Price
 Calculations
 Transportation
 Trans. Chgd. Back

Date Shipped
 Car No. and Int.
 How Shipped and Route

From

F. O. B.

DESCRIPTION	QUANTITY (SHOW UNIT)	PRICE PER UNIT	AMOUNT
This National Standard invoice form was adopted by a National conference at Division of Simplified Practice, Department of Commerce at Washington, D. C., January 14, 1925.			

Above Materials received _____
 Charge Account

19____ and found _____ satisfactory (Signed) _____
 Approved

_____ (Title)
 Approved

THE STANDARD INVOICE FORM

This standard invoice form is illustrated above. It provides space for recording all necessary information for both shipper and customer and does away with the need of rubber-stamp instructions. In practice, the name and emblem of the National Association of Purchasing Agents, shown in the illustration, would be replaced by those of the vendor.

Exercise 60. Oral or Written

MERCHANDISE TRANSACTIONS

Give the account to be debited and the account to be credited in each of the following transactions of C. W. Bates:

- Aug. 1. Purchase merchandise from H. C. Baker, \$700. Terms: n/30.
2. Pay cash for freight on the above, \$10.25.

3. Return to H. C. Baker defective merchandise, \$75. Receive his credit memorandum.

10. Sell to James F. Mills, merchandise, \$476. Terms: n/30.

11. Pay cartage charges on above, \$8.20.

13. James F. Mills returns defective merchandise, \$54. Issue a credit memorandum.

16. Receive of H. D. Simpson a credit memorandum for defective goods returned to him on Aug. 15, \$66.20.

18. Send George L. Leith a credit memorandum for error in our invoice of Aug. 17, \$10.

20. Receive of A. S. Coleman a credit memorandum for allowance on defective goods purchased from him on Aug. 20, \$26.32.

Exercise 61. Oral

TOPICS FOR CLASS DISCUSSION

1. Explain the procedure outlined for issuing, filing, and checking purchase orders issued in duplicate.

2. Explain the use of the following accounts: *Freight and Cartage In*, *Cartage Out*, *Delivery Expense*, *Purchases Returns and Allowances*, *Sales Returns and Allowances*.

3. Explain the use of a straight bill of lading and the disposition of the several copies.

4. Explain the entry to be made when some merchandise from a purchase is returned to the shipper; when some merchandise from a sale is returned by a customer.

5. Describe the use of a credit memorandum.

6. Describe the use and content of a monthly statement of account.



CHAPTER XVI

CASH DISCOUNTS—THREE-COLUMN CASH JOURNAL

Credit Period. Most businesses have a definite time within which invoices for goods sold on account should be paid. This period is called the *credit period*. The *terms* under which goods are sold are generally stated on the invoices and vary widely. In some businesses the terms are cash, whereas in others a credit period of 6 mo. is allowed. The more common terms are 30 da. or 60 da. If the goods are to be paid for promptly, the statement "Terms: Cash" will appear on the invoice.

If the amount of the invoice is due in a certain number of days, say 30 da., the expression "Terms: Net 30 da." would appear on the invoice. "Net 30 da." may be expressed "n/30."

Cash, or Merchandise, Discount. The seller frequently offers to the buyer a deduction from the face of the invoice if the bill is paid within a specified period. This deduction is called a *cash*, or *merchandise*, *discount*.

If a cash, or merchandise, discount is allowed, the rate of the discount and the time within which it may be applied are indicated in the terms. To illustrate, if a discount of 2% is allowed on payment made within 10 da., the expression "Terms: 2/10, n/30" would appear on the invoice. To obtain this discount of 2%, the invoice must be paid within 10 da. from the date of the invoice; otherwise, the full amount of the invoice must be paid within 30 da.

The date of the invoice is generally the date of the shipment of the goods, and the discount period begins with the date of the invoice, irrespective of when the goods are received.

The following expressions are used commonly to denote terms of payment:

Net Cash. The invoice is payable immediately upon receipt of the goods. In some businesses the payment of an invoice within 10 da. is considered the same as cash.

On Account. The invoice is payable within the regular credit period, usually 30 da.

2/10, n/60. The invoice is payable within 60 da., but if paid within 10 da. a discount of 2% will be allowed.

2/5, 1/10, n/30. The invoice is payable within 30 da., but if paid within 5 da. a discount of 2% will be allowed, or if paid within 10 da. a discount of 1% will be allowed.

Significance of Merchandise Discounts. A merchandise discount is a deduction made for the payment of an invoice within a specified time. A concern which sells an invoice of merchandise amounting to \$1000 on the terms 2/10, n/30, really offers to pay 2 % of \$1000, or \$20, for the use of the money for 20 da. In other words, a merchandise discount is really a deduction allowed for the use of money. It is therefore a form of interest and bears a relation to the prevailing interest rates.

Comparison of Merchandise Discount and Annual Interest. To illustrate the comparison of merchandise discount and annual interest, assume that a concern buys goods amounting to \$1000 on the terms 2/10, n/30.

If the invoice is paid on or before 10 da., a discount of \$20 will be allowed. To make the comparison above stated it is necessary to determine what annual interest rate is earned when \$980 is paid 20 da. before it is due.

Expressed in terms of per cent, 2.0408 % ($\$20 \div \980) is the earning obtained for the use of \$980 for 20 da. In a year of 360 da., which is eighteen times 20 da., an earning of eighteen times the allowance for 20 da. would be made, or 36.7344 % for a year. A discount of 2/10, n/30, therefore, is equivalent to an annual interest rate of approximately 36.73 %.

If money were borrowed from the bank at 6 % to pay this amount, the net annual saving would be 30.73 %. A concern therefore makes a very substantial saving by taking advantage of merchandise discounts, even though it borrows the money at 6 %. On the other hand, a concern which does not take its discounts is decidedly handicapped not only by the additional cost of doing business but also by the difficulty of getting credit at the bank or with business houses.

Discounts on Purchases and on Sales. Cash, or merchandise, discounts are divisible into two classes:

1. Discounts received on purchases, which are called *merchandise discounts on purchases*.

2. Discounts allowed on sales, which are called *merchandise discounts on sales*.

The Accounting for Merchandise Discount on Purchases. To illustrate the accounting for merchandise discount on purchases, assume that on April 12, 19—, Henry Upson bought of L. A. Sweet, Worcester, Mass., merchandise amounting to \$690. Terms: 2/10, n/30. At the time of the purchase, an entry would be made in the purchases journal as follows:

DATE	F.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.	TOTAL
Apr. 12		L. A. Sweet	Worcester, Mass.	2/10, n/30	690 —	

To take advantage of the discount of 2%, payment for the purchase should reach L. A. Sweet on April 22. Assume that on April 21 the invoice is paid and a check for \$676.20 (\$690 (amount of invoice) — \$13.80 (amount of discount)) is sent Mr. Sweet. The following entry would be made in the cash journal to record this remittance :

CASH PAID

DATE		F.	ACCOUNT DEBIT	EXPLANATION	CASH, CR.		TOTAL
Apr.	21	12	L. A. Sweet	Invoice of 4/12, less 2%	676	20	

To record the discount allowed on this transaction, an account called *Merchandise Discount on Purchases* is used. This account is an income account inasmuch as it represents the amount earned in paying invoices within the discount period, and it will appear on the profit and loss statement. The following general-journal entry would be made for the discount :

	21						
L. A. Sweet				13	80		
Merchandise Discount on Purchases						13	80
To record the 2% discount taken on invoice of L. A. Sweet, dated April 12, for \$690.							

After all these entries have been posted, L. A. Sweet's account will appear as follows :

L. A. SWEET
Worcester, Mass.

19—						19—					
Apr.	21		C. J.	2	676	20	Apr.	12		P. J.	1
	21		G. J.	1	13	80					690
					690	—					690

The Accounting for Merchandise Discount on Sales. To illustrate the accounting for merchandise discount on sales, assume that on April 18, 19—, Henry Upson sold to Olson Bros., Cleveland, Ohio, merchandise amounting to \$787.50. Terms: 2/10, n/30. At the time of the sale, an entry would be made in the sales journal, as follows :

DATE		F.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.		TOTAL	
Apr.	18	5	Olson Bros.	Cleveland, Ohio	2/10, n/30	787	50		

CASH DISCOUNTS — THREE-COLUMN CASH JOURNAL 171

If Olson Bros. take advantage of the terms of sale and their remittance is received on or before the 28th, the amount to be paid in settlement of the above sale would be \$771.75 (\$787.50 (the amount of the invoice) — \$15.75 (the amount of the discount)). Assuming such a remittance to have been received on April 27, the entry in the cash journal would be as follows:

CASH RECEIVED

DATE	F.	ACCOUNT CREDIT	EXPLANATION	CASH, DR.		TOTAL	
Apr. 27	5	Olson Bros.	Invoice of 4/18, less 2%	771	75		

To record the discount allowed, an account called *Merchandise Discount on Sales* is used. This account is an expense account, inasmuch as it represents the cost of procuring the money from the customers before it is due, and it will appear on the profit and loss statement. The following general-journal entry would be made for the discount allowed on this payment:

27							
Merchandise Discount on Sales				15	75		
Olson Bros.						15	75
To record the 2% discount taken by							
Olson Bros., on invoice dated April 18,							
for \$787.50.							

After all these entries have been posted, *Olson Bros.*' account would appear as follows:

OLSON BROS. Cleveland, Ohio.

19—						19—					
Apr. 18		S.J.	1	787	50	Apr. 27		C.J.	1	771	75
						27		G.J.	1	15	75
				787	50					787	50

Exercise 62. Written

MERCHANDISE DISCOUNTS

Record the following transactions in the general journal, cash journal, sales journal, and purchases journal.

Use a double sheet of journal paper (four pages). Use page 1 for the general journal, the upper half of pages 2 and 3 for the cash journal, the lower half of page 2 for the purchases journal, and the lower half of page 3 for the sales journal.

CASH RECEIVED

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES		GENERAL LEDGER CREDITS	
Apr.	1	9	John Boyd, Investment	Invested in business	1000	—		1000	—
	9	2	A. B. Guild	Inv. 4/4, less 2%	882	—	18	—	900
	13	3	Wm. A. Hall & Co.	Inv. 4/4, less 2%	88	20	1	80	90
	22	5	A. L. Mason	Inv. 4/17, less 3%	329	80	10	20	340
	26	3	Wm. A. Hall & Co.	Inv. 4/17, less 2%	254	80	5	20	260
	27	4	H. A. Manter	Inv. 4/24, less 5%	1045	—	55	—	1100
					3599	80	90	20	3690
					(1)		(15)		
May	1		Balance on hand		661	85			661 85

the Merchandise Discount on Purchases column, and the sum of the amounts entered in the first two columns is entered in the General Ledger Debits column.

In this cash journal the sum of the footings of the first two columns, on either side, should always equal the footings of the third column.

To post the received side of the cash journal, *credit* each item in the General Ledger Credits column to the proper account in the ledger, *debit* the footing of the Net Cash column at the end of the month to the *Cash* account in the ledger, and *debit* the footing of the Merchandise Discount on Sales column at the end of the month to the *Merchandise Discount on Sales* account in the ledger.

To post the paid side of the cash journal, *debit* each item in the General Ledger Debits column to the proper account in the ledger, *credit* the footing of the Net Cash column at the end of the month to the *Cash* account in the ledger, and *credit* the footing of the Merchandise Discount on Purchases column at the end of the month to the *Merchandise Discount on Purchases* account in the ledger.

Exercise 63. Written

THREE-COLUMN CASH JOURNAL

Using a general journal, a three-column cash journal, a sales journal, and a purchases journal, record the following transactions.

Use the first page of a double journal sheet for a general journal; on the inside pages rule an additional column on each page, to the left of the money columns. At the top of these columns insert the headings of the model three-column cash journal illustrated above. Use the upper half of the last sheet for the purchases journal and the lower half for the sales journal.

In this exercise all addresses are omitted.

CASH DISCOUNTS — THREE-COLUMN CASH JOURNAL 175

CASH PAID

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.		GENERAL LEDGER DEBITS	
Apr.	6	7	K. L. Knapp	Inv. 4/2, less 2%	362	60	7	40	370	—
	10	8	L. A. Porter	Inv. 4/1, less 3%	659	60	20	40	680	—
	26	7	K. L. Knapp	Inv. 4/16, less 3%	654	75	20	25	675	—
	27	6	John A. Briggs	Inv. 4/23, less 3%	1261	—	39	—	1300	—
					2937	95	87	05	3025	—
					(1)		(12)			

May 1, 19—. Arthur T. Young began the wholesale hardware business investing cash, \$2000.

1. Bought of J. H. Gilman merchandise, \$1200. Terms: 2/10, n/30.
2. Paid Frank C. Bliss cash, for rent of store for month, \$100.
2. Sold A. L. Jackson merchandise, \$800. Terms: cash.

Record the sale in the sales journal, but make no entry for the cash until it is received.

3. Sold B. A. King merchandise, \$200. Terms: 3/5, n/30.
3. Received of A. L. Jackson a check, for invoice of May 2.
4. Bought of George A. Brown & Co. merchandise, \$800. Terms: 3/10, n/60.
5. Sold John A. Kane & Co. merchandise, \$500. Terms: 3% cash.
6. Received of John A. Kane & Co. a check, for invoice of May 5, less 3%.
6. Received of B. A. King a check, for invoice of May 3, less 3%.
8. Sent George A. Brown & Co. a check, for invoice of May 4, less 3%.
10. Bought of J. H. Gilman merchandise, \$1000. Terms: 2/10, n/30.
10. Sent J. H. Gilman a check, for invoice of May 1, less 2%.
12. Sold R. A. York & Co. merchandise, \$700. Terms: 3/5, n/30.
- x 12. Sold Ryan & Co. merchandise, \$600. Terms: note dated May 12, due in 10 da., with interest at 6%.
13. Bought of George A. Brown & Co. merchandise, \$900. Terms: 3/10, n/60.
- x 13. Received of Ryan & Co. their note dated May 12, due in 10 da., with interest, at 6%, for invoice of May 12.
15. Received of R. A. York & Co. a check, for invoice of May 12, less 3%.
16. Sold R. O. Warner, for cash, merchandise, \$400. Cash is received.

CASH RECEIVED

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES		GENERAL LEDGER CREDITS	
Apr.	1	9	John Boyd, Investment	Invested in business	1000	—		1000	—
	9	2	A. B. Guild	Inv. 4/4, less 2%	882	—	18	—	900
	13	3	Wm. A. Hall & Co.	Inv. 4/4, less 2%	88	20	1	80	90
	22	5	A. L. Mason	Inv. 4/17, less 3%	329	80	10	20	340
	26	3	Wm. A. Hall & Co.	Inv. 4/17, less 2%	254	80	5	20	260
	27	4	H. A. Manter	Inv. 4/24, less 5%	1045	—	55	—	1100
					3599	80	90	20	3690
					(1)		(15)		
May	1		Balance on hand		661	85			661 85

the Merchandise Discount on Purchases column, and the sum of the amounts entered in the first two columns is entered in the General Ledger Debits column.

In this cash journal the sum of the footings of the first two columns, on either side, should always equal the footings of the third column.

To post the received side of the cash journal, *credit* each item in the General Ledger Credits column to the proper account in the ledger, *debit* the footing of the Net Cash column at the end of the month to the *Cash* account in the ledger, and *debit* the footing of the Merchandise Discount on Sales column at the end of the month to the *Merchandise Discount on Sales* account in the ledger.

To post the paid side of the cash journal, *debit* each item in the General Ledger Debits column to the proper account in the ledger, *credit* the footing of the Net Cash column at the end of the month to the *Cash* account in the ledger, and *credit* the footing of the Merchandise Discount on Purchases column at the end of the month to the *Merchandise Discount on Purchases* account in the ledger.

Exercise 63. Written

THREE-COLUMN CASH JOURNAL

Using a general journal, a three-column cash journal, a sales journal, and a purchases journal, record the following transactions.

Use the first page of a double journal sheet for a general journal; on the inside pages rule an additional column on each page, to the left of the money columns. At the top of these columns insert the headings of the model three-column cash journal illustrated above. Use the upper half of the last sheet for the purchases journal and the lower half for the sales journal.

In this exercise all addresses are omitted.

CASH DISCOUNTS — THREE-COLUMN CASH JOURNAL 175

CASH PAID

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.		GENERAL LEDGER DEBITS	
Apr.	6	7	K. L. Knapp	Inv. 4/2, less 2%	362	60	7	40	370	—
	10	8	L. A. Porter	Inv. 4/1, less 3%	659	60	20	40	680	—
	26	7	K. L. Knapp	Inv. 4/16, less 3%	654	75	20	25	675	—
	27	6	John A. Briggs	Inv. 4/23, less 3%	1261	—	39	—	1300	—
					2937	95	87	05	3025	—
					(1)		(12)			

May 1, 19—. Arthur T. Young began the wholesale hardware business investing cash, \$2000.

1. Bought of J. H. Gilman merchandise, \$1200. Terms: 2/10, n/30.
2. Paid Frank C. Bliss cash, for rent of store for month, \$100.
2. Sold A. L. Jackson merchandise, \$800. Terms: cash.

Record the sale in the sales journal, but make no entry for the cash until it is received.

3. Sold B. A. King merchandise, \$200. Terms: 3/5, n/30.
3. Received of A. L. Jackson a check, for invoice of May 2.
4. Bought of George A. Brown & Co. merchandise, \$800. Terms: 3/10, n/60.
5. Sold John A. Kane & Co. merchandise, \$500. Terms: 3% cash.
6. Received of John A. Kane & Co. a check, for invoice of May 5, less 3%.
6. Received of B. A. King a check, for invoice of May 3, less 3%.
8. Sent George A. Brown & Co. a check, for invoice of May 4, less 3%.
10. Bought of J. H. Gilman merchandise, \$1000. Terms: 2/10, n/30.
10. Sent J. H. Gilman a check, for invoice of May 1, less 2%.
12. Sold R. A. York & Co. merchandise, \$700. Terms: 3/5, n/30.
- x 12. Sold Ryan & Co. merchandise, \$600. Terms: note dated May 12, due in 10 da., with interest at 6%.
13. Bought of George A. Brown & Co. merchandise, \$900. Terms: 3/10, n/60.
- x 13. Received of Ryan & Co. their note dated May 12, due in 10 da., with interest, at 6%, for invoice of May 12.
15. Received of R. A. York & Co. a check, for invoice of May 12, less 3%.
16. Sold R. O. Warner, for cash, merchandise, \$400. Cash is received.

17. Returned to George A. Brown & Co. merchandise amounting to \$300, bought from them on May 13.

19. Bought of Ray Manufacturing Co. merchandise, \$600, and gave in payment our note dated today, due in 10 da., with interest at 6%.

19. Sent J. H. Gilman a check, for invoice of May 10, less 2%.

22. Received of Ryan & Co. a check, in payment of their note dated May 12.

22. Sent George A. Brown & Co. a check, for balance due on invoice of May 13, less 3%.

24. Sold Ryan & Co. merchandise, \$700. Terms: 5% cash.

25. Bought of George A. Brown & Co. merchandise, \$375. Terms: 3/10, n/60.

26. Ryan & Co. returned merchandise amounting to \$200, sold them on invoice of May 24.

26. Received of Ryan & Co. a check, for balance due on invoice of May 24, less 5%.

27. Sold William A. Jones merchandise, \$400. Terms: 3/5, n/30.

29. Paid the Ray Manufacturing Co. cash, for our note dated May 19.

Open the following ledger accounts on sheets of ledger paper, allowing four lines for each account:

Cash	Arthur T. Young, Investment
Notes Receivable	Merchandise Sales
A. L. Jackson	Sales Returns and Allowances
William A. Jones	Merchandise Discount on Purchases
John A. Kane & Co.	Interest Income
B. A. King	Merchandise Purchases
Ryan & Co.	Purchases Returns and Allowances
R. O. Warner	Rent Expense
R. A. York & Co.	Merchandise Discount on Sales
Notes Payable	Interest Expense
George A. Brown & Co.	
J. H. Gilman	
Ray Manufacturing Co.	

Rule, foot, and post all the books of original entry.

Take a trial balance.

Exercise 64. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following: *credit period*; *terms*; *cash*, or *merchandise*, *discount*.

2. Explain the meaning of the following: *Terms: 5/10, 2/30, n/60*.

3. Name the two accounts which are kept with merchandise discount.

4. State and explain the entries to be made in connection with the following transactions:

a. Jan. 10. You buy merchandise of J. A. Barnes, \$500. Terms: 3/10, n/30.

b. Jan. 15. You pay for this purchase.

c. Jan. 11. You sold T. M. Morris merchandise, \$300. Terms: 2/10, n/30.

d. Jan. 20. Mr. Morris paid you for his purchase.

5. Explain the use and posting of a three-column cash journal.

CHAPTER XVII

OPENING THE BOOKS WITH MORE THAN ONE ASSET. THE USE OF THE OPENING MERCHANDISE INVENTORY ACCOUNT

Opening the Books with more than One Asset. Up to this point, the proprietor of a business has invested only one asset — cash — in the business. It frequently happens that a proprietor invests more than one asset in a business when beginning that business. To illustrate, assume that on June 1 J. B. Cook begins business with the following investment: cash, \$1000; merchandise inventory, \$2500. The following compound entry may be made in the general journal:

		June 1, 19—						
✓	Cash		1000	—				
	Merchandise Inventory		2500	—				
	J. B. Cook, Investment					3500	—	
	To credit the <i>J. B. Cook, Investment</i> , account with the assets invested in the business on June 1, 19—.							

The cash item of \$1000 should be entered in the cash journal, as follows:

DATE		F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS	
June	1	✓	J. B. Cook, Investment		1000	—		1000	—

The checking of an item means that it is not to be posted. It is highly advisable that the opening journal entry show all items invested by the proprietor. This is accomplished by including the cash item in the entry, even though it is not posted from the general journal. Since, however, the cash investment must be recorded in the cash journal, it is accordingly entered as a cash receipt, but checked so that it is not posted to the credit of the *J. B. Cook, Investment*, account. Thus the equality between debits and credits is maintained, since the debit to *Cash* is made by entering it in the cash journal, and the credit is included in the amount entered to the credit of Mr. Cook's *Investment* account.

The principle illustrated above is that when books are opened with more than one asset, the assets are debited under appropriate names, and the *Proprietor's Investment* account is credited for the total assets.

Exercise 65. Oral or Written

OPENING ENTRIES FOR INVESTMENTS OF MORE THAN ONE ASSET

Give the opening entries orally or in writing for each of the following:

1. T. M. Jackson began business with the following investment: cash, \$750; note of C. B. Chalmers, \$300; merchandise, \$2250.

2. A. M. Hobbs began business with the following investment: cash, \$1200; merchandise, \$2700; store furniture and furnishings, \$350.

3. S. R. Boyd began business with the following investment: cash, \$800; note of A. L. Allen, \$200; account against T. W. Lewis, \$100; merchandise, \$1500; office supplies inventory, \$50.

Opening the Books with Both Assets and Liabilities. It frequently happens that the proprietor of a business has not kept an adequate set of books, but has decided to have a set opened for him. Again, it may be that a person decides to go into business, investing several different assets and liabilities. In either case it is necessary to know the exact form of the opening entry in the general journal.

The various assets and liabilities which are to be recorded upon the books are all valued or inventoried as of the date the books are to be opened. The assets are debited to the appropriate asset accounts, and the *Proprietor's Investment* account is credited with their sum; the liabilities are credited to the appropriate liability accounts, and the *Proprietor's Investment* account is debited with their sum. The balance of the *Proprietor's Investment* account is his actual net investment in the business.

To illustrate the opening of a set of books for the proprietor who has been in business for some time, assume that A. J. Remy decides to have Student open a set of books for him as of Jan. 2, 19—. The various assets and liabilities which he has, as of Jan. 2, are found to be as follows:

Cash on hand and on deposit	\$442.70
Accounts Receivable	
M. J. Weaver	320.16
C. H. Gray	184.06
A. L. Marsh	217.29
Merchandise Inventory	6782.00
Furniture and Furnishings	250.00
Fuel Inventory	175.00
Office Supplies Inventory	57.50
Note given Anderson & Co.	1000.00
Accounts Payable	
C. M. Travers	142.15
J. E. King	243.35

The opening general-journal statement and entry would be as follows:

		Jan. 2, 19—					
		A. J. Remy has this day opened a set of books for his business at 712 State St., Beloit, Wis., with the assets and liabilities listed below:					
✓	Cash	442	70				
	M. J. Weaver	320	16				
	C. H. Gray	184	06				
	A. L. Marsh	217	29				
	Merchandise Inventory	6782	—				
	Furniture and Furnishings	250	—				
	Fuel Inventory	175	—				
	Office Supplies Inventory	57	50				
	A. J. Remy, Investment			8428	71		
		To credit the <i>A. J. Remy, Investment</i> , account with the assets in the business on Jan. 2, 19—.					
	A. J. Remy, Investment	1385	50				
	Notes Payable			1000	—		
	C. M. Travers			142	15		
	J. E. King			243	35		
		To debit the <i>A. J. Remy, Investment</i> , account with the liabilities of the business on Jan. 2, 19—.					

The cash item of \$442.70 should also be entered in the cash journal, as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
Jan. 2	✓	A. J. Remy, Investment		442 70		442 70

Why is the *Cash* entry checked in the general journal, and why is the *A. J. Remy, Investment*, entry checked in the cash journal?

The principle illustrated above is that when books are opened with both assets and liabilities, the assets are debited and the *Proprietor's Investment* account is credited for their total, and the liabilities are credited and the *Proprietor's Investment* account is debited for their total.

To illustrate opening a set of books for a merchant beginning business with both assets and liabilities, assume that R. A. Merrill, of Dayton, Ohio, started in the retail coal business at 210 Sixth Ave., on Oct. 1, 19—, with the following assets and liabilities:

ASSETS

Cash	\$3450
Note of J. C. McNoel	350
Auto Trucks	2000

LIABILITIES

Note given F. Bentley	\$500
Account due John Rogers	650

The *Auto Trucks* account records the cost of all automobile trucks owned by the business.

The opening general-journal statement and entry would be as follows:

Oct. 1, 19—			
R. A. Merrill has this day begun the retail coal business at 210 Sixth Ave., Dayton, Ohio, with the assets and liabilities listed below:			
✓ Cash	3450	—	
Notes Receivable	350	—	
Auto Trucks	2000	—	
R. A. Merrill, Investment			5800 —
To credit <i>R. A. Merrill, Investment</i> , account with the assets invested in the business.			
R. A. Merrill, Investment	1150	—	
Notes Payable			500 —
John Rogers			650 —
To debit <i>R. A. Merrill, Investment</i> , account with the liabilities assumed by the business.			

The cash item of \$3450 should also be entered in the cash journal.

What items should be checked in the general journal and in the cash journal? Why?

Exercise 66. Written

OPENING THE BOOKS WITH BOTH ASSETS AND LIABILITIES

On sheets of journal paper, make the entries for the following:

1. A. L. Davis decides to open a new set of books as of Sept. 1, 19—. The assets and liabilities on hand are found to be as follows:

Cash, \$582.30
Note of J. L. Moran, \$276.80
Accounts Receivable
 H. L. Grant, \$118.46
 C. M. Bates, \$384.23
Merchandise Inventory, \$3465
Furniture and Furnishings, \$200
Office Supplies Inventory, \$46.50
Note given Brown & Co., \$426.55
Accounts Payable
 W. B. Taylor, \$250.90
 C. H. Palmer, \$319.72

2. A. C. Moore decides to open a new set of books as of Oct. 1, 19—. The assets and liabilities on hand are found to be as follows:

Cash, \$758.45
Note of T. B. Welch, \$427
Accounts Receivable
 L. J. Speth, \$182.60
 H. W. Meyer, \$276.84
Merchandise Inventory, \$2379
Furniture and Furnishings, \$265
Fuel Inventory, \$32.20
Office Supplies Inventory, \$57.90
Note given Mason & Son, \$450
Accounts Payable
 John Lacy, \$245.40
 A. W. Koch, \$163.30

3. J. P. Welton decides to open a new set of books as of Nov. 1, 19—. The assets and liabilities on hand are found to be as follows:

Cash, \$427.63
Accounts Receivable
 H. S. Richards, \$286.40
 W. M. Olds, \$484.35
 R. W. Webb, \$156.99
Merchandise Inventory, \$1876
Furniture and Furnishings, \$175
Fuel Inventory, \$38.90
Note given Geo. N. Lewis, \$497
Accounts Payable
 H. B. Foster, \$209.50

4. William K. Duffy began business July 1, 19—, with the following assets and liabilities:

Cash on hand, \$453.40
 Note of F. M. Everett, \$500
 Accounts Receivable
 George Brown, \$415
 H. C. Baker, \$287
 Merchandise Inventory, \$3000
 Furniture and Furnishings, \$256
 Note given S. B. Lewis, \$450
 Accounts Payable
 Jones Manufacturing Co., \$390
 A. C. Moore, \$187.65

5. John L. Thorp began business Aug. 1, 19—, with the following assets and liabilities:

Cash on hand, \$776.30
 Note of M. A. Martin, \$425
 Accounts Receivable
 William Allen, \$350
 J. E. Farley, \$179
 Merchandise Inventory, \$2582.10
 Fuel Inventory, \$30
 Note given D. E. Walker, \$615
 Accounts Payable
 G. H. Bradley, \$176.40
 W. H. Cobb, \$275.20

Opening Inventory of Merchandise. An opening inventory of merchandise was one of the assets invested in the business, the opening entries for which appeared on page 178 (also on page 180). The opening inventory of merchandise is the value of goods on hand at the time the books are opened, and this amount must be considered in determining the cost of goods sold during the month and in preparing the profit and loss statement for the month. Where the *Merchandise Inventory* item in the opening journal entry appearing on page 178 is posted to the *Merchandise Inventory* account in the ledger, it would appear as follows:

MERCHANDISE INVENTORY

[illegible]

Assume that on June 30 Mr. Cook's ledger showed that merchandise purchases to the amount of \$1250 had been made during the month, and that the sales for June were \$2400. Assume also that the inventory on June 30 was found to be \$2150.

The merchandise sold during the month might have been on hand the first of the month or might have been purchased during the month. The sum of the opening inventory and the purchases would thus represent the total amount of merchandise from which sales might have been made. The actual cost of merchandise sold is then determined by subtracting the closing inventory from this sum. Thus:

Merchandise Inventory, June 1	\$2500
Merchandise Purchases	<u>1250</u>
	\$3750
Merchandise Inventory, June 30	<u>2150</u>
Cost of Merchandise Sold	\$1600

The gross profit section of the profit and loss statement for June would appear as follows:

Merchandise Sales		\$2400
Merchandise Inventory, June 1	\$2500	
Merchandise Purchases	<u>1250</u>	
	\$3750	
Merchandise Inventory, June 30	<u>2150</u>	
Cost of Merchandise Sold		<u>1600</u>
Gross Profit on Sales		\$800

Exercise 67. Written

OPENING MERCHANDISE INVENTORY

For each of the following problems, determine the cost of merchandise sold during the month:

1. B. A. Roth began business on March 1, 19—, with merchandise to the amount of \$2150. During the month he purchased merchandise, \$3785. On March 31 the inventory was found to be \$2645.

2. On April 30 Mr. Roth's ledger showed that merchandise purchases to the amount of \$3245 had been made. The inventory on April 30 was found to be \$2065.

For each of the following problems, prepare the gross-profit section of the profit and loss statement:

3. On June 1 F. W. Earl had merchandise on hand to the amount of \$1735. On June 30 his ledger showed purchases for June to the amount of \$2260 and sales, \$2890. The inventory on June 30 was found to be \$1845.

4. On July 31 Mr. Earl's ledger showed purchases for July to the amount of \$3120 and sales, \$3760. The inventory on July 31 was found to be \$2350.

Profit and Loss Statement; Adjusting and Closing Entries. The following model profit and loss statement illustrates the way in which the new accounts discussed in Chapters XV and XVI — Freight and Cartage In, Cartage Out, Purchases Returns and Allowances, Sales Returns and Allowances, Merchandise Discount on Purchases, Merchandise Discount on Sales — and the opening merchandise inventory appear in the profit and loss statement.

A. B. Hull Co.

PROFIT AND LOSS STATEMENT

For the Month of March, 19—

Merchandise Sales			\$4842.00	
Less Sales Returns and Allowances			<u>260.00</u>	\$4582.00
Merchandise Inventory, March 1	\$1184.00			
Merchandise Purchases	\$4350.00			
Less Purchases Returns and Allowances	<u>310.00</u>	4040.00		
Freight and Cartage In		<u>82.30</u>	\$5306.30	
Merchandise Inventory, March 31			<u>1814.10</u>	
Cost of Merchandise Sold				<u>3492.20</u>
Gross Profit on Sales				\$1089.80

OPERATING EXPENSES

Rent Expense			\$150.00	
Salaries			300.00	
Cartage Out			25.00	
Fuel — Fuel Inventory account	\$84.00			
Less Inventory, March 31	<u>49.00</u>		35.00	
Office Supplies — Office Supplies Inv. acct.	\$37.80			
Less Inventory, March 31	<u>20.20</u>	17.60		<u>527.60</u>
Net Operating Profit				\$562.20
Other Income				
Merchandise Discount on Purchases	\$84.32			
Interest Income	<u>13.55</u>	\$97.87		
Other Expense				
Merchandise Discount on Sales	\$65.25			
Interest Expense	<u>21.10</u>	<u>86.35</u>		<u>11.52</u>
Net Profit for March				\$573.72

If the cost of the merchandise sold exceeds the net sales, the difference is the Gross Loss on Sales. The caption *Net Operating Profit* would then be changed to *Net Operating Loss*, and the *Net Profit for March* to *Net Loss for March*.

If the sum of the items under Other Expense exceeds the sum of the items under Other Income, the difference is subtracted from the Operating Profit in order to obtain the Net Profit.

Exercise 68. Written

STATEMENTS

From the following trial balances, prepare the profit and loss statements and balance sheets. Follow the model form just given in preparing the profit and loss statement.

1

John S. Graves

TRIAL BALANCE

Oct. 31, 19—

Cash	\$871.55	
Notes Receivable	434.75	
Accounts Receivable	574.70	
Merchandise Inventory, Oct. 1	1,011.30	
Furniture and Furnishings	245.20	
Fuel Inventory	45.75	
Office Supplies Inventory	38.90	
Notes Payable		\$356.70
Accounts Payable		232.25
John S. Graves, Investment		4,000.00
John S. Graves, Drawing	100.00	
Merchandise Sales		5,751.50
Sales Returns and Allowances	382.00	
Merchandise Discount on Purchases		82.16
Interest Income		18.29
Merchandise Purchases	6,381.55	
Purchases Returns and Allowances		218.10
Freight and Cartage In	52.09	
Rent Expense	100.00	
Salaries	325.00	
Merchandise Discount on Sales	72.46	
Interest Expense	23.75	
	<u>\$10,659.00</u>	<u>\$10,659.00</u>
Merchandise Inventory, Oct. 31	\$2,924.10	
Fuel Inventory	30.00	
Office Supplies Inventory	24.50	

The student should realize the great importance of having the items in the profit and loss statement and in the balance sheet arranged in the best possible form. Favorable or unfavorable impressions lasting many years are often made by the appearance of the data in a statement. Too much thought or too much practice cannot be given to such matters, therefore, and since the form given on page 185 follows the most approved practice, the student is urged to follow it in detail in preparing profit and loss statements.

2

J. C. Brader

TRIAL BALANCE

Dec. 31, 19—

Cash	\$962.50	
Notes Receivable	587.78	
Accounts Receivable	721.32	
Merchandise Inventory, Dec. 1	1,757.64	
Furniture and Furnishings	250.00	
Fuel Inventory	65.00	
Office Supplies Inventory	48.51	
Notes Payable		\$421.14
Accounts Payable		586.02
J. C. Brader, Investment		4,200.00
J. C. Brader, Drawing	128.75	
Merchandise Sales		6,172.04
Sales Returns and Allowances	384.16	
Merchandise Discount on Purchases		92.53
Interest Income		21.42
Merchandise Purchases	6,424.86	
Purchases Returns and Allowances		472.30
Freight and Cartage In	68.84	
Rent Expense	125.00	
Salaries	350.00	
Merchandise Discount on Sales	74.83	
Interest Expense	16.26	
	<u>\$11,965.45</u>	<u>\$11,965.45</u>
Merchandise Inventory, Dec. 31	\$2,852.65	
Fuel Inventory	42.00	
Office Supplies Inventory	27.50	

The arrangement of the accounts in the above trial balances indicate that they are entered in the ledger according to the general group to which they belong — assets, liabilities, proprietary interest, income and expense. The student should now appreciate how this arrangement of grouping like accounts together facilitates the making of statements, and how important it is, therefore, to follow this systematic plan in keeping a set of books for any business.

To close the books when the new accounts discussed in Chapters XV and XVI — Freight and Cartage In, Cartage Out, Purchases Returns and Allowances, Sales Returns and Allowances, Merchandise Discount on Purchases, Merchandise Discount on Sales — and the opening merchandise inventory are used, the adjusting and closing entries on the following page are made. The data appearing in the profit and loss statement on page 185 are used as the bases for these entries.

	31				
Fuel		35	—		
Fuel Inventory				35	—
Cost of coal consumed during March.					
	31				
Office Supplies		17	60		
Office Supplies Inventory				17	60
Office supplies used during March.					
	31				
Purchases Returns and Allowances		310	—		
Merchandise Purchases				310	—
To close the <i>Purchases Returns and Allowances</i> account into the <i>Merchandise Purchases</i> account to obtain the net purchases.					
	31				
Merchandise Purchases		82	30		
Freight and Cartage In				82	30
To close the <i>Freight and Cartage In</i> account into the <i>Merchandise Purchases</i> account as an additional cost of goods bought.					
	31				
Merchandise Purchases		1184	—		
Merchandise Inventory				1184	—
To transfer the inventory of March 1 to the <i>Merchandise Purchases</i> account.					
	31				
Merchandise Inventory		1814	10		
Merchandise Purchases				1814	10
To record the merchandise inventory and to credit the <i>Merchandise Purchases</i> account for the merchandise remaining unsold on March 31.					
	31				
Merchandise Sales		3492	20		
Merchandise Purchases				3492	20
To transfer the balance of the <i>Merchandise Purchases</i> account, representing the cost of goods sold, to the <i>Merchandise Sales</i> account.					

31				
Merchandise Sales .	260	—		
Sales Returns and Allowances			260	—
To close the <i>Sales Returns and Allowances</i> account into the <i>Merchandise Sales</i> account to obtain the net sales.				
31				
Merchandise Sales	1089	80		
Profit and Loss			1089	80
To transfer the balance of the <i>Merchandise Sales</i> account, representing the gross profit on the merchandise sold, to the <i>Profit and Loss</i> account.				
31				
Profit and Loss	527	60		
Rent Expense			150	—
Salaries			300	—
Cartage Out			25	—
Fuel			35	—
Office Supplies			17	60
To close the various expense accounts into the <i>Profit and Loss</i> account.				
This compound entry takes the place of separate entries for each of the five expense accounts.				
31				
Merchandise Discount on Purchases	84	32		
Interest Income	13	55		
Profit and Loss			97	87
To close the above accounts into the <i>Profit and Loss</i> account as an additional income.				
31				
Profit and Loss	86	35		
Merchandise Discount on Sales			65	25
Interest Expense			21	10
To close the above accounts into the <i>Profit and Loss</i> account as an additional expense.				
31				
Profit and Loss	573	72		
A. B. Hull, Drawing			573	72
To transfer the net profit of the period to A. B. Hull, <i>Drawing</i> , account.				

Exercise 69. Written

PROFIT AND LOSS STATEMENT, BALANCE SHEET, ADJUSTING AND CLOSING ENTRIES

1. On a sheet of journal paper, prepare the adjusting and closing entries for the accounts given in Problem 1, Exercise 68, p. 186.

2. On a sheet of journal paper, prepare the adjusting and closing entries for the accounts given in Problem 2, Exercise 68, p. 187.

3. From the following trial balance, prepare (1) the profit and loss statement, (2) the balance sheet, and (3) the adjusting and closing entries:

Alfred Lane

TRIAL BALANCE

Dec. 31, 19—

Cash	\$792	
Notes Receivable	900	
B. A. Kraft	325	
Hope Manufacturing Co.	482	
H. T. Thomas	300	
Merchandise Inventory, Jan. 1	4,610	
Furniture and Furnishings	400	
Fuel Inventory	135	
Office Supplies Inventory	100	
Notes Payable		\$400
Kelley Bros.		148
F. S. Barlow		470
Alfred Lane, Investment		7,000
Alfred Lane, Drawing	400	
Merchandise Sales		16,882
Sales Returns and Allowances	318	
Merchandise Discount on Purchases		140
Interest Income		110
Merchandise Purchases	12,564	
Purchases Returns and Allowances		230
Freight and Cartage In	175	
Rent Expense	1,080	
Salaries	2,400	
Cartage Out	168	
Merchandise Discount on Sales	147	
Interest Expense	84	
	<u>\$25,380</u>	<u>\$25,380</u>
Merchandise Inventory, Dec. 31	\$6,284	
Fuel Inventory	30	
Office Supplies Inventory	35	

Exercise 70. Oral

TOPICS FOR CLASS DISCUSSION

1. Give the opening entry or entries for a set of books for C. J. Mills, who began business today, investing cash, \$1000, and merchandise, \$3500.

2. If Mr. Mills owned the assets mentioned in question 1, but also had liabilities of accounts payable amounting to \$750, how should the opening entries be made?

3. Referring to question 1, why was it necessary to check the \$1000 item in the general journal and again in the cash journal?

4. State the names of the accounts under which each of the following is recorded: merchandise inventory at beginning of month, merchandise sales, merchandise purchases, merchandise inventory at close of month.

5. State the entries necessary to record and transfer the items given in question 4 so that the cost of merchandise sold may be obtained. In which of these accounts will such an amount appear?

6. C. J. Mills's ledger shows that the *Purchases Returns and Allowances* account is credited with \$500. How should this account be closed? If, through error, his bookkeeper had not closed this account, would the profit of the period have been overstated or understated?

7. How should a *Sales Returns and Allowances* account be closed? If, through error, it were not closed, would the profit of the period have been overstated or understated?

CHAPTER XVIII

SET III. RETAIL OFFICE-FURNITURE BUSINESS

Object of Set. The object of this set is to combine in a complete narrative of a business all the principles and practices discussed up to this point. The transactions of this set will be written in books which resemble, as far as is practicable, an actual set of books which might be kept in a retail office-furniture business.

In this set the Student will act as bookkeeper for T. M. Bird, who has opened a retail office-furniture business at 96 Portland St., Cambridge, Mass. Transactions for two months, April and May, are given, and the statements are to be prepared and the ledger is to be closed at the end of each month.

Books Used. The books used in this set are as follows: purchases journal, sales journal, cash journal, general journal, and the ledger.

Business practice may be used with this set if the instructor desires.

Purchases Journal. All invoices of merchandise purchased should be recorded in the purchases journal at their face value. If discount is allowed, it will be recorded in the cash journal if the invoice is paid within the discount period.

Sales Journal. All sales should be recorded in the sales journal at the face value of the invoices. If discount is taken by customers, it will be recorded in the cash journal.

Cash Journal. A three-column cash journal is used in this set. All cash received is entered in the Net Cash column; if the cash received is for merchandise sold and a discount has been taken by the customer, the discount is entered in the Merchandise Discount on Sales column, and the sum of the net cash and the sales discount is entered in the General Ledger Credits column. If the receipt is from a customer who has not discounted the bill, or from any other source, extend into the General Ledger Credits column the same amount as entered in the Net Cash column.

All cash paid is entered in the Net Cash column on the right side of the cash journal; if the cash paid is for merchandise purchased and a discount has been taken in paying the invoice, the discount is entered in the Merchandise Discount on Purchases column, and the sum of the net cash and the purchases discount is entered in the General Ledger Debits column. If the payment is to a creditor and the invoice is not discounted, or if the payment is made for any other purpose,

extend into the General Ledger Debits column the same amount as entered in the Net Cash column.

General Journal. The general journal is provided for making the opening statement, the adjusting and closing entries, and for any entries which cannot be recorded in one of the special journals.

Opening the Ledger. Open the following accounts in Blank B, in the order given, placing four accounts on a page:

Cash	Accounts Payable ²
Notes Receivable	C. A. Bates & Co., 76 Cleveland St., Gardner, Mass.
Accounts Receivable ¹	William Brigham, 84 Canal St., Springfield, Mass.
J. L. Hughes, 2018 Huron St., Cambridge, Mass.	F. C. Davenport & Son, 400 Massachusetts Ave., Cambridge, Mass.
L. A. Jarvis, 32 Broad St., Boston, Mass.	Eclipse Light Co., 1000 Broad St., Newark, N. J.
Charles Jenney, 448 Hanover St., Boston, Mass.	Stone Bros., 164 First St., Springfield, Mass.
F. K. Jennings & Co., 100 Main St., Cambridge, Mass.	T. M. Bird, Investment
William Jones, 90 Broadway, Somerville, Mass.	T. M. Bird, Drawing
Nash Sales Co., Westfield, Mass.	Profit and Loss
A. M. Oliver, 10 Cambridge St., Cambridge, Mass.	Merchandise Sales
T. S. Sullivan, 644 Lake St., Cambridge, Mass.	Sales Returns and Allowances (Debit account)
Silas White, 1114 Boylston St., Cambridge, Mass.	Merchandise Discount on Purchases
John Winthrop, College Sq., Cambridge, Mass.	Interest Income
Merchandise Inventory	Merchandise Purchases
Furniture and Furnishings	Purchases Returns and Allowances (Credit account)
Fuel Inventory	Freight and Cartage In
Office Supplies Inventory	Rent Expense
Notes Payable	Salaries ³
	Fuel
	Office Supplies
	Cartage Out
	Merchandise Discount on Sales
	Interest Expense

Incoming Business Forms for April. Reference is here made to the possible uses of the text and forms detailed on pages 149 and 150.

In all the following invoices Mr. Bird, as Proprietor, is the purchaser

¹ Do not write *Accounts Receivable* in the ledger.

² Do not write *Accounts Payable* in the ledger.

³ Allow fifteen lines for *Salaries*.

- Form 1.** Note of F. L. Matthews, City, for \$250, in your favor, due in 30 da., with interest at 6%, dated March 29, payable at 96 Portland St.
- Form 2.** Receipt of Arthur Freeman, for \$100, for rent of store for April, April 2.
- Form 3.** Check of T. S. Sullivan, City, for \$132.30, in your favor, for invoice of March 25, less 2%, April 4.
- Form 4.** Check of J. L. Hughes, City, for \$85, in your favor, for invoice of March 6, April 5.
- Form 5.** Invoice of William Brigham, 84 Canal St., Springfield, Mass., April 8. Terms: 2/10, n/30.
- | | |
|---------------------------|-----------|
| 4 #496 Flat-Top Oak Desks | @ \$14.50 |
| 3 #5023 Typewriter Desks | @ 43.00 |
| 2 #1473 Flat-Top Tables | @ 15.75 |
| 6 #416 Office Chairs | @ 12.00 |
| 2 #76 Oak Bookcases | @ 28.50 |
- Form 6.** Check of Nash Sales Co., Westfield, Mass., for \$538.06, in your favor, for invoice of April 9, less 1%, April 9.
- Form 7.** Invoice of F. C. Davenport & Son, 400 Massachusetts Ave., Cambridge, Mass., April 12. Terms: 1/30, n/60.
- | | |
|------------------------------|-----------|
| 3 #383 Typewriter Chairs | @ \$13.00 |
| 5 #698 Oak Filing Cabinets | @ 24.00 |
| 2 #1035 Steel Flat-Top Desks | @ 60.00 |
| 2 #4164 Steel Safes | @ 60.00 |
- Form 8.** Check of Silas White, City, for \$129.75, in your favor, for invoice of April 4, April 14.
- Form 9.** Check of Charles Jenney, Boston, Mass., for \$176.71, in your favor, for invoice of April 15, less 1%, April 15.
- Form 10.** Bill of Cambridge Typewriter Exchange, City, for 1 #5 rebuilt Underwood, \$72.50, April 15. Terms: cash.
- Form 11.** Bill of Wilson Stationery Co., City, for stationery and office supplies, \$17.30, April 16. Terms: cash.
- Form 12.** Check of F. K. Jennings & Co., City, for \$201.96, in your favor, for invoice of April 11, less 1%, April 16.
- Form 13.** Credit memorandum from F. C. Davenport & Son, for 1 defective #4164 Steel Safe, invoiced to us on April 12, at \$60, April 17.
- Form 14.** Invoice of C. A. Bates & Co., 76 Cleveland St., Gardner, Mass., April 21. Terms: 2/10, n/30.
- | | |
|---------------------------------|-----------|
| 5 #1023 Roll-Top Oak Desks | @ \$45.00 |
| 1 #4164 Steel Safe | @ 60.00 |
| 6 #393 Swivel Typewriter Chairs | @ 11.50 |
- Form 15.** Note of John Winthrop, City, for \$257, in your favor, due in 20 da., with interest at 6%, dated April 25, payable at 96 Portland St.
- Form 16.** Check of Nash Sales Co., for \$281.65, in your favor, for invoice of April 25, less 1%, April 26.

Form 17. Invoice of Eclipse Light Co., 1000 Broad St., Newark, N. J., April 26. Terms: 2/10, n/30.

12 #0734 Metal Desk Lamps	@ \$4.50
6 #1987 Green-Shade Lamps	@ 6.20

Form 18. Check of F. L. Matthews, City, for \$251.25, in your favor, for his 30-day note and interest, April 28.

Form 19. Invoice of Stone Bros., 164 First St., Springfield, Mass., April 29. Terms: 30-day note, with interest at 6 %.

2 #1023 Roll-Top Oak Desks	@ \$45.00
2 #5023 Typewriter Desks	@ 48.00
6 #416 Office Chairs	@ 12.00
6 #897 Oak Swivel Chairs	@ 18.50

Form 20. Credit memorandum of Eclipse Light Co., for 1 defective #1987 Green-Shade Lamp, invoiced to us on April 26, at \$6.20, April 30.

Opening Merchandise Inventory. The inventory of merchandise owned by Mr. Bird on April 1 is as follows:

4 #1023 Roll-Top Oak Desks	@ \$45.00
10 #496 Flat-Top Oak Desks	@ 14.50
5 #1496 Typewriter Desks	@ 50.00
5 #5023 Typewriter Desks	@ 48.00
4 #897 Oak Swivel Chairs	@ 18.50
6 #393 Swivel Typewriter Chairs	@ 11.50
8 #383 Typewriter Chairs	@ 13.00
12 #416 Office Chairs	@ 12.00
4 #76 Oak Bookcases	@ 28.50
6 #698 Oak Filing Cabinets	@ 24.00
4 #1473 Flat-Top Tables	@ 15.75
5 #692 Mahogany Cabinets	@ 26.50
2 #94 Mahogany Bookcases	@ 48.50
4 #1035 Steel Flat-Top Desks	@ 60.00
7 #553 Steel Cabinets	@ 24.00
3 #4164 Steel Safes	@ 60.00
2 #43645 Steel Safes	@ 160.00
10 #0734 Metal Desk Lamps	@ 4.50
5 #1987 Green-Shade Lamps	@ 6.20

MEMORANDA OF TRANSACTIONS FOR APRIL

April 1, 19—. T. M. Bird has been conducting a retail office-furniture business at 96 Portland St., Cambridge, Mass., for over a year, but he has not had an adequate set of double-entry books. He decides to install an up-to-date system as of April 1, 19—, and asks Student to act as bookkeeper.

Mr. Bird receives a salary of \$160 per month; Alice Rood, \$20 per week; Student, \$20 per week; D. R. Robbins, \$18 per week; and A. Mead, \$18 per week.

Make out the signature card and pass it to the office.

Make out a deposit ticket. Hand the currency and the deposit ticket to the person receiving the deposit for the bank. This person will write the name *T. M. Bird* on the outside cover of a bank pass book and will record the following on the first ruled page: "19—

"Apr. 1 Deposit \$400."

The pass book will then be given the student, who should place it in the *Bank envelope*. It should be taken to the bank whenever deposits are made.

Record the amount on the check record.

2. The store occupied by Mr. Bird is rented from Arthur Freeman at a monthly rental of \$100. Pay the rent for April by check.

Write the check, record it in the check record, and make the entry in the cash journal. Receive a receipt, Form 2, from Mr. Freeman, and file in the *Receipts and Paid Items* envelope.

File the check in the *Outgoing Papers* envelope.

Outgoing papers are those given to others.

2. Sell to William Jones, 90 Broadway, Somerville, Mass.:

2 #496 Flat-Top Oak Desks	@ \$21.75
2 #393 Swivel Typewriter Chairs	@ 17.25
1 #698 Oak Filing Cabinet	@ 36.00

Terms: cash.

Mr. Jones has his own truck call for the furniture.

Receive the cash, count it carefully, and place it in the *Business Cash* envelope.

Make out an invoice in duplicate. Place the sheet of carbon paper, copying side down, between the first two sheets of the invoice pad. Use a hard, sharp pencil and write the invoice, following the model given on page 153.

Receipt the invoice by writing on it, "Received Payment, T. M. Bird, per Student, April 2, 19—."

Place the original in the *Outgoing Papers* envelope and the duplicate in the *Duplicate Sales Invoices* envelope.

3. Order the following goods on purchase order No. 1 of William Brigham, 84 Canal St., Springfield, Mass., f.o.b. Springfield:

4 #496 Flat-Top Oak Desks	@ \$14.50
2 #1473 Flat-Top Tables	@ 15.75
3 #5023 Typewriter Desks	@ 48.00
6 #416 Office Chairs	@ 12.00
2 #76 Oak Bookcases	@ 28.50

Make out the purchase order in duplicate, following the model given on page 159.

Place the original purchase order in the *Outgoing Papers* envelope, the duplicate purchase order in the *Duplicate Purchase Orders* envelope.

Make no entry in the books until the goods are received, and then only after the invoice has been verified with the duplicate purchase order and with the goods actually received.

4. Receive from T. S. Sullivan his check for invoice of March 25, Form 3.

Make the entry in the cash journal, following the model on pages 174 and 175.
Is Mr. Sullivan entitled to discount on this invoice?

4. Sell to Silas White, 1114 Boylston St., Cambridge, Mass.:

1 #496 Flat-Top Oak Desk @	\$21.75
1 #5023 Typewriter Desk @	72.00
2 #416 Office Chairs @	18.00

Terms: n/10.

5. Receive from J. L. Hughes his check for invoice of March 6, Form 4.

5. Deposit the two checks.

Indorse these checks by full indorsement before depositing.

Post all books of original entry to the ledger.

In actual business the books of original entry are posted daily. By so doing the customers' and creditors' accounts are always up to date.

7. T. M. Bird withdraws cash, as salary, \$40.

Pay the money and enter in the cash journal. The money may be handed in to the office or otherwise cared for as the instructor may desire.

Why should this item not be debited to *Mr. Bird's Drawing* account?

9. Receive the invoice and goods ordered on purchase order No. 1 from William Brigham, Form 5.

Remove this invoice from the tablet. Compare it with the duplicate purchase order as to quantities, items, and unit prices. Check the invoice with the goods received. Verify the extensions and amount. If the goods delivered are as ordered and if the amount of the invoice is correct, enter in the purchases journal.

Place the invoice in the *Invoices of Merchandise Purchased-Unpaid* envelope.

9. Pay the Union Carting Co. by check, for freight and cartage on this order, \$67.

What account is debited for this amount?

9. Sell to Nash Sales Co., Westfield, Mass.:

2 #5023 Typewriter Desks @	\$72.00
2 #383 Typewriter Chairs @	19.50
5 #416 Office Chairs @	18.00
1 #1023 Roll-Top Oak Desk @	67.50
1 #897 Oak Swivel Chair @	27.50
2 #698 Oak Filing Cabinets @	36.00
2 #76 Oak Bookcases @	45.00
2 #0734 Metal Desk Lamps @	6.75

Terms: 1% cash.

Receive their check, Form 6.

10. Order the following goods on purchase order No. 2 of F. C. Davenport & Son, 400 Massachusetts Ave., Cambridge, Mass., to be delivered by their trucks:

3 #383 Typewriter Chairs	@ \$13.00
5 #698 Oak Filing Cabinets	@ 24.00
2 #1035 Steel Flat-Top Desks	@ 60.00
2 #4164 Steel Safes	@ 60.00

10. Deposit the check received from the Nash Sales Co.

11. Sell to F. K. Jennings & Co., 100 Main St., Cambridge, Mass.:

2 #496 Flat-Top Oak Desks	@ \$21.75
2 #393 Swivel Typewriter Chairs	@ 17.25
1 #4164 Steel Safe	@ 90.00
1 #698 Oak Filing Cabinet	@ 36.00

Terms: 1/5.

12. Pay William Brigham by check, to apply on invoice of April 8, \$122.50.

For what amount should Brigham be debited?

12. Receive the invoice and goods ordered on purchase order No. 2 from F. C. Davenport & Son, Form 7.

12. Issue the checks to the employees for their salaries for two weeks. Post all books of original entry to the ledger.

14. Receive from Silas White his check, for invoice of April 4, Form 8.

14. Return to F. C. Davenport & Son, because of a defect, 1 #4164 Steel Safe, invoiced to us on April 12, at \$60.

Make no entry until the credit memorandum is received.

It is assumed that a copy of the letter to F. C. Davenport & Son relative to this return will be kept for reference purposes.

14. Take the following furniture from stock for office use:

1 #496 Flat-Top Oak Desk	@ \$14.50
1 #393 Swivel Typewriter Chair	@ 11.50
1 #5023 Typewriter Desk	@ 48.00
1 #383 Typewriter Chair	@ 13.00
3 #416 Office Chairs	@ 12.00

Make a general-journal entry debiting *Furniture and Furnishings* account. Why are these items taken at cost prices?

15. Sell to Charles Jenney, 448 Hanover St., Boston, Mass.:

2 #692 Mahogany Cabinets	@ \$40.00
1 #94 Mahogany Bookcase	@ 75.00
1 #1473 Flat-Top Table	@ 23.50

Terms: 1% cash.

Receive this check, Form 9.

15. Deposit the checks of Silas White and Charles Jenney.

15. Pay the bill of the Cambridge Typewriter Exchange by check, Form 10.

Why should the *Furniture and Furnishings* account be debited for the amount of the bill?

File the bill in the *Receipts and Paid Items* envelope.

16. Pay the Union Carting Co. by check, for cartage on sales to Nash Sales Co., F. K. Jennings & Co., and Charles Jenney, \$15.

What account is debited for cartage on sales?

16. Pay the bill of Wilson Stationery Co. by check, Form 11.

Why should this amount not be debited to the *Office Supplies* account?

16. Receive from F. K. Jennings & Co. their check, for invoice of April 11, less 1%, Form 12.

What account is debited for discount taken by customers?

17. Deposit the check of F. K. Jennings & Co.

17. Receive credit memorandum from F. C. Davenport & Son, Form 13.

Why should this amount be credited to *Purchases Returns and Allowances* rather than to *Merchandise Sales*?

Why is *F. C. Davenport & Son* debited?

File the credit memorandum with the invoice of F. C. Davenport & Son in the *Invoices of Merchandise Purchased-Unpaid* envelope.

18. Order the following goods on purchase order No. 3 of C. A. Bates & Co., 76 Cleveland St., Gardner, Mass., f.o.b. Gardner:

5 #1023 Roll-Top Oak Desks	@ \$45.00
1 #4164 Steel Safe	@ 60.00
6 #393 Swivel Typewriter Chairs	@ 11.50

Why is no entry made in the books when a purchase order is issued?

19. Sell to A. M. Oliver, 10 Cambridge St., Cambridge, Mass.:

1 #1496 Typewriter Desk	@ \$75.00
1 #1023 Roll-Top Oak Desk	@ 67.50
1 #897 Oak Swivel Chair	@ 27.50
4 #416 Office Chairs	@ 18.00
1 #0734 Metal Desk Lamp	@ 6.75

Terms: 1/10, n/30.

Post all books of original entry to the ledger.

21. Receive the invoice and goods ordered on purchase order No. 3 from C. A. Bates & Co., Form 14.

21. Pay the Union Carting Co. by check, for freight and cartage on this invoice, \$12.50.

21. Sell to John Winthrop, College Sq., Cambridge, Mass.:

1 #1496 Typewriter Desk	@ \$75.00
1 #383 Typewriter Chair	@ 19.50
4 #416 Office Chairs	@ 18.00
1 #698 Oak Filing Cabinet	@ 36.00
1 #76 Oak Bookcase	@ 45.00
1 #1987 Green-Shade Lamp	@ 9.50

Terms: note at 20 da., with interest at 6%.

Make no entry for the note until it is received.

22. A. M. Oliver returns 1 defective #897 Oak Swivel Chair purchased on April 19.

Issue a credit memorandum. File in the *Outgoing Papers* envelope.

Why should this amount be debited to *Sales Returns and Allowances* rather than to *Merchandise Purchases*?

23. Pay F. C. Davenport & Son by check, for invoice of March 25, less 1%.

23. Issue a check to T. M. Bird, for salary, \$60.

24. Pay the City Bank by check, for note dated Feb. 23, with interest.

Remove the note from the *Outgoing Papers* envelope, have the instructor mark it. "Paid, April 24, 19—," and file in the *Receipts and Paid Items* envelope.

24. Order the following goods on purchase order No. 4 of Eclipse Light Co., 1000 Broad St., Newark, N.J., f.o.b. Cambridge:

12 #0734 Metal Desk Lamps	@ \$4.50
6 #1987 Green-Shade Lamps	@ 6.20

25. Receive of John Winthrop his note, for invoice of April 21, Form 15.

File the note in the *Notes Receivable* envelope.

25. Sell to Nash Sales Co., for their Quincy office:

1 #1023 Roll-Top Oak Desk	@ \$67.50
1 #5023 Typewriter Desk	@ 72.00
2 #897 Oak Swivel Chairs	@ 27.50
1 #4164 Steel Safe	@ 90.00

Terms: 1% cash.

The Inter-City Trucking Co. is to deliver the items in Quincy, the Nash Sales Co. paying the transportation charges.

26. Receive from Nash Sales Co. their check, for the Quincy shipment of April 25, less 1%, Form 16.

26. Deposit the check.

26. Issue the checks to the employees, for their salaries for two weeks.

Post all books of original entry to the ledger.

28. Sell to L. A. Jarvis, 32 Broad St., Boston, Mass.:

1 #1023 Roll-Top Oak Desk @	\$67.50
1 #897 Oak Swivel Chair @	27.50

Terms: cash.

Receive the cash and proceed as in a similar transaction on April 2.

28. Order the following goods on purchase order No. 5 of Stone Bros., 164 First St., Springfield, Mass., f.o.b. Springfield:

2 #1023 Roll-Top Oak Desks @	\$45.00
2 #5023 Typewriter Desks @	48.00
6 #416 Office Chairs @	12.00
6 #897 Oak Swivel Chairs @	18.50

28. Receive the invoice and goods ordered on purchase order No. 4 from Eclipse Light Co., Form 17.

One of the #1987 Green-Shade Lamps is defective and is returned to the Eclipse Light Co.

Enter the full amount of the invoice in the purchases journal.

28. Receive of F. L. Matthews his check, in payment of his note dated March 29, with interest, Form 18.

Cancel the note by writing across the face "Paid, April 28, 19—," and signing with Mr. Bird's signature, per Student.

Return the canceled note to Mr. Matthews by placing it in the *Outgoing Papers* envelope.

29. Sell to J. L. Hughes:

1 #1035 Steel Flat-Top Desk @	\$90
1 #4164 Steel Safe @	90
2 #553 Steel Cabinets @	36

Terms: n/30.

29. Deposit the check of F. L. Matthews.

30. T. M. Bird withdraws by check the balance of the salary due for the month, \$60.

30. Receive the invoice and goods ordered on purchase order No. 5 from Stone Bros., Form 19.

30. Pay the Union Carting Co. by check, for freight and cartage on the Stone Bros. shipment, \$5.75.

30. Receive credit memorandum from Eclipse Light Co., Form 20.

30. Sell to William Jones :

1 #1035 Steel Flat-Top Desk @	\$90.00
2 #0734 Metal Desk Lamps @	6.75
1 #43645 Steel Safe @	240.00

Terms: n/30.

Complete the posting of the items in all books of original entry to the ledger.

Inventories. The Merchandise Inventory on hand is \$2384.05 and has been taken at cost price.

If desired, the instructor may ask the student to verify the inventory.

Fuel Inventory	\$17.00
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2 T. Coal @ \$8.50

Office Supplies Inventory

Stationery and Office Supplies	\$28.50
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The furniture and furnishings are valued at the cost price.

Closing the Set. Rule, foot, and post the totals of the purchases, sales, and cash journals.

Foot, in pencil, all accounts having more than one item. Pencil footings should be very small.

Take a trial balance of the ledger, omitting all accounts that balance. Record it in Blank A on the page indicated by the index.

Hand the books to the instructor for inspection and approval.

Prepare a profit and loss statement and a balance sheet, and record them in Blank A, on the pages indicated by the index.

Close the ledger.

Be certain to make and post the adjusting entries.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

Exercise 71. Written

MONTHLY BANK STATEMENT

1. Make out the monthly bank statement for the month of April, Set III. If business practice was used, use the monthly bank statement form which was included with the business papers; if business practice was not used, rule a form following the model on page 142.

The deposits made and checks issued during the month may be obtained from the check record or, if this record was not kept, from the memoranda of transactions for April.

The following checks were unpaid at the end of the month :

CHECK NUMBER	DATE	AMOUNT
19	4/30	\$60.00
20	4/30	5.75

2. Prepare a reconciliation of bank-statement balance and check-book balance.

Exercise 72. Written

REVIEW

From each of the following trial balances, prepare (1) the profit and loss statement; (2) the balance sheet; (3) the adjusting and closing journal entries.

1

A. B. Kelley

TRIAL BALANCE

June 30, 19—		
Cash	\$780	
Notes Receivable	450	
E. E. Gunn	465	
John R. Stark	272	
Merchandise Inventory, June 1	4,025	
Furniture and Furnishings	500	
Fuel Inventory	50	
Office Supplies Inventory	65	
Notes Payable		\$300
William A. Groves		490
A. B. Kelley, Investment		6,000
A. B. Kelley, Drawing	180	
Merchandise Sales		5,375
Sales Returns and Allowances	140	
Merchandise Discount on Purchases		47
Interest Income		4
Merchandise Purchases	4,640	
Purchases Returns and Allowances		105
Freight and Cartage In	165	
Rent Expense	125	
Salaries	300	
Cartage Out	96	
Merchandise Discount on Sales	62	
Interest Expense	6	
	<u>\$12,321</u>	<u>\$12,321</u>
Merchandise Inventory, June 30	\$4,560	
Fuel Inventory	40	
Office Supplies Inventory	37	

2

J. E. Holmes

TRIAL BALANCE

July 31, 19—

Cash	\$738	
Notes Receivable	550	
W. H. Howe	182	
F. E. Mears	314	
H. E. Scott	198	
Merchandise Inventory, July 1	3,520	
Furniture and Furnishings	725	
Office Supplies Inventory	50	
Notes Payable		\$500
L. J. Emery		147
J. E. Holmes, Investment		4,500
J. E. Holmes, Drawing		125
Merchandise Sales		4,780
Sales Returns and Allowances	105	
Merchandise Discount on Purchases		51
Interest Income		3
Merchandise Purchases	3,245	
Purchases Returns and Allowances		95
Freight and Cartage In	115	
Rent Expense	100	
Salaries	200	
Freight and Cartage Out	85	
Merchandise Discount on Sales	67	
Interest Expense	7	
	<u>\$10,201</u>	<u>\$10,201</u>
Merchandise Inventory, July 31	\$2,975	
Office Supplies Inventory	25	

CHAPTER XIX

SET III. RETAIL OFFICE-FURNITURE BUSINESS (CONTINUED)

The memoranda following are a continuation of the memoranda for April. No new principles are introduced, and the familiar business forms are used. As such full and explicit instructions were given in April, much explanatory matter will be omitted in May.

Incoming Business Forms for May. The following list of forms is a continuation of the list for April:

Form 21. Receipt of Arthur Freeman for rent of store for May, May 2.

Form 22. Check of F. K. Jennings & Co., City, for \$218.79, in your favor, for balance due on invoice of May 2, less 1 %, May 6.

Form 23. Invoice of William Brigham, 84 Canal St., Springfield, Mass., May 6. Terms: 2/10, n/30.

3 #76 Oak Bookcases @ \$28.50

3 #94 Mahogany Bookcases @ 48.50

4 #692 Mahogany Cabinets @ 26.50

Form 24. Check of Charles Jenney, Boston, Mass., for \$163.35, in your favor, for invoice of May 8, less 1 %, May 8.

Form 25. Check of A. M. Oliver, City, for \$221.25, in your favor, for invoice of April 19, May 12.

Form 26. Invoice of C. A. Bates & Co., 76 Cleveland St., Gardner, Mass., May 13. Terms: 2/10, n/30.

2 #1035 Steel Flat-Top Desks @ \$60.00

2 #4164 Steel Safes @ 60.00

2 #1496 Typewriter Desks @ 50.00

6 #383 Typewriter Chairs @ 13.00

Form 27. Check of John Winthrop, City, for \$257.86, in your favor, for his 20-day note and interest, May 15.

Form 28. Credit memorandum from C. A. Bates & Co., for 1 defective #383 Typewriter Chair invoiced to us on May 13 at \$13, May 17.

Form 29. Invoice of F. C. Davenport & Son, 400 Massachusetts Ave., Cambridge, Mass., May 20. Terms: 1/30, n/60.

1 #43645 Steel Safe @ \$160.00

Form 30. Note of Silas White, City, for \$294.75, in your favor, due in 20 da., with interest at 6 %, dated May 21, payable at 96 Portland St.

Form 31. Check of J. L. Hughes, City, for \$252, in your favor, for invoice of April 29, May 21.

- Form 32.** Bill of Hill Grocery Co., City, to T. M. Bird, for groceries, \$22.50, May 22.
- Form 33.** Check of A. M. Oliver, City, for \$267.30, in your favor, for invoice of May 14, less 1 %, May 24.
- Form 34.** Check of F. K. Jennings & Co., City, for \$291.80, in your favor, for invoice of May 23, less 1 %, May 28.
- Form 35.** Check of William Jones, Somerville, Mass., for \$343.50, in your favor, for invoice of April 30, May 29.
- Form 36.** Invoice of William Brigham, 84 Canal St., Springfield, Mass., May 31. Terms: 2/10, n/30.

2 #1023 Roll-Top Oak Desks @ \$45.00
 2 #94 Mahogany Bookcases @ 48.50

Opening the Work for May. The following general directions should be observed:

1. Use the same books, business forms, etc. as in April.
2. Begin a new page in each journal.
3. Use a new sheet for the bank account. Record the balance at the head of the deposit column.

MEMORANDA OF TRANSACTIONS FOR MAY

May 1, 19—. Pay C. A. Bates & Co. by check, for invoice of April 21, less 2 %.

Turn to C. A. Bates & Co.'s account in the ledger to find the amount of the invoice.

1. Give Stone Bros. our note dated today, due in 30 da., with interest at 6 %, for invoice of April 29.

Write the note payable at *their office* and file in the *Outgoing Papers* envelope.

2. Sell to F. K. Jennings & Co.:

1 #1023 Roll-Top Oak Desk @ \$67.50
 1 #897 Oak Swivel Chair @ 27.50
 2 #698 Oak Filing Cabinets @ 36.00
 1 #4164 Steel Safe @ 90.00

Terms: 1/5.

2. Pay Arthur Freeman by check, for rent of store for May, \$100. Receive a receipt, Form 21, from Mr. Freeman.

3. Order the following goods on purchase order No. 6 of William Brigham, f.o.b. Springfield:

3 #76 Oak Bookcases @ \$28.50
 3 #94 Mahogany Bookcases @ 48.50
 4 #692 Mahogany Cabinets @ 26.50

Post all books of original entry to the ledger.

5. F. K. Jennings & Co. return 1 defective # 698 Oak Filing Cabinet purchased on May 2.

Issue a credit memorandum.

Make the proper entry in the general journal.

5. Sell to Nash Sales Co. :

1 #43645 Steel Safe @ \$240

Terms: 1% cash.

The Nash Sales Co. have their own truck call for the safe.

Receive the cash and proceed as in a similar transaction on April 2.

5. Deposit cash, \$300.

5. Give the Eclipse Light Co. a check, for balance due on invoice of April 26, less 2%.

Turn to the Eclipse Light Co.'s account in the ledger and find the balance due; write the check for this amount less the discount.

6. Receive of F. K. Jennings & Co. their check, for balance due on invoice of May 2, less 1%, Form 22.

7. Receive the invoice and goods ordered on purchase order No. 6 from William Brigham, Form 23.

7. Pay the Union Carting Co. by check, for freight and cartage on this order, \$51.

8. Sell to Charles Jenney :

4 #496 Flat-Top Oak Desks @ \$21.75

4 #383 Typewriter Chairs @ 19.50

Terms: 1% cash.

Receive his check, Form 24.

8. Deposit the checks of F. K. Jennings & Co. and Charles Jenney.

8. Send William Brigham a check, in payment of the balance due on the invoice of April 8.

8. T. M. Bird withdraws cash as salary, \$50.

9. Pay the Union Carting Co. by check, for cartage on sales to F. K. Jennings & Co. and Charles Jenney, \$9.25.

10. Order the following goods on purchase order No. 7 of C. A. Bates & Co., f.o.b. Gardner :

2 #1035 Steel Flat-Top Desks @ \$60

2 #4164 Steel Safes @ 60

2 #1496 Typewriter Desks @ 50

6 #383 Typewriter Chairs @ 13

10. Issue the checks to the employees for their salaries for two weeks.

Post all books of original entry to the ledger.

12. Receive of A. M. Oliver his check, for the balance due on the invoice of April 19, Form 25.

12. Deposit the check of A. M. Oliver.

12. Pay F. C. Davenport & Son by check, for the balance due on the invoice of April 12, less 1%.

13. Sell to L. A. Jarvis:

1 #1023 Roll-Top Oak Desk	@ \$67.50
1 #5023 Typewriter Desks	@ 72.00
2 #1496 Typewriter Desks	@ 75.00
2 #393 Swivel Typewriter Chairs	@ 17.25

Terms: cash.

Receive the cash.

13. Deposit cash, \$300.

14. Receive the invoice and goods ordered on purchase order No. 7 from C. A. Bates & Co., Form 26.

14. Sell to A. M. Oliver:

3 #692 Mahogany Cabinets	@ \$40
2 #94 Mahogany Bookcases	@ 75

Terms: 1/10, n/30.

15. Pay the Union Carting Co. by check, for freight and cartage on the invoice of C. A. Bates & Co., \$8.75.

What distinction is made in bookkeeping between freight and cartage on purchases and cartage on sales?

15. Receive of John Winthrop his check, in payment of his note dated April 25, with interest, Form 27.

What two entries are made in the cash journal?

Remember to cancel and file the note.

How is this note canceled?

15. Deposit this check.

15. Return to C. A. Bates & Co. 1 defective #383 Typewriter Chair sold to us on May 13.

When is the entry made for this returned merchandise?

16. Order the following goods on purchase order No. 8 of F. C. Davenport & Son:

1 #43645 Steel Safe	@ \$160
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16. Pay William Brigham by check for the invoice of May 6, less 2%.

17. Receive of C. A. Bates & Co. their credit memorandum for 1 #383 defective chair returned to them on May 15, Form 28.

17. T. M. Bird withdraws cash as salary, \$40.

Post all books of original entry to the ledger.

19. Sell to Silas White:

2 #1035 Steel Flat-Top Desks	@	\$90.00
3 #553 Steel Cabinets	@	36.00
2 #0734 Metal Desk Lamps	@	6.75

Terms: Note at 20 da., with interest at 6%.

20. Receive the invoice and goods ordered on purchase order No. 8 of F. C. Davenport & Son, Form 29.

20. Silas White returns 1 #0734 Metal Desk Lamp sold him on invoice of May 19.

21. Receive of Silas White his note, for the balance due on invoice of May 19, Form 30.

21. Receive of J. L. Hughes his check, for invoice of April 29, Form 31.

22. Sell to John Winthrop:

1 #4164 Steel Safe	@	\$90.00
2 #1035 Steel Flat-Top Desks	@	90.00
2 #94 Mahogany Bookcases	@	75.00
6 #0734 Metal Desk Lamps	@	6.75
6 #1987 Green-Shade Lamps	@	9.50
2 #692 Mahogany Cabinets	@	40.00

Terms: 1/10, n/30.

22. Pay the Hill Grocery Co. cash, for household bill of T. M. Bird, \$22.50, Form 32.

What entry is made in the cash journal?

22. Deposit the check of J. L. Hughes.

23. Sell to F. K. Jennings & Co.:

1 #5023 Typewriter Desk	@	\$72.00
2 #1023 Roll-Top Oak Desks	@	67.50
3 #393 Swivel Typewriter Chairs	@	17.25
1 #698 Oak Filing Cabinet	@	36.00

Terms: 1/5.

23. Give C. A. Bates & Co. a check, for balance due on invoice of May 13, less 2%.

24. Receive of A. M. Oliver his check, for invoice of May 14, less 1%, Form 33.

24. Issue the checks to the employees for their salaries for two weeks.

Post all books of original entry to the ledger.

26. Pay the Union Carting Co. by check, for cartage on sale to F. K. Jennings & Co., \$7.10.

26. Deposit the check of A. M. Oliver.

26. Order the following goods on purchase order No. 9 from William Brigham, f.o.b. Springfield:

2 #1023 Roll-Top Oak Desks	@ \$45.00
2 #94 Mahogany Bookcases	@ 48.50

26. T. M. Bird withdraws cash, for balance of salary, \$70.

27. Sell to A. M. Oliver:

1 #43645 Steel Safe	@ \$240.00
2 #1023 Roll-Top Oak Desks	@ 67.50
2 #1496 Typewriter Desks	@ 75.00

Terms: 1/10, n/30.

28. Receive of F. K. Jennings & Co. their check, for invoice of May 23, less 1%, Form 34.

28. Sell to J. L. Hughes:

2 #1035 Steel Flat-Top Desks	@ \$90
2 #5023 Typewriter Desks	@ 72
3 #76 Oak Bookcases	@ 45

Terms: n/30.

29. Receive of William Jones his check, for invoice of April 30, Form 35.

29. Deposit the checks of F. K. Jennings & Co. and William Jones.

31. Receive the invoice and goods ordered on purchase order No. 9 from William Brigham, Form 36.

31. Pay the Union Carting Co. by check, for freight and cartage on this shipment, \$23.50.

31. Pay Stone Bros. by check, for our note dated May 1, with interest.

What is the amount of this check? Remember to cancel and file the note.

Complete the posting of the items in all books of original entry to the ledger.

Inventories. The Merchandise Inventory on hand is \$1224.35 and has been taken at cost price.

If desired, the instructor may ask the student to verify the inventory.

Fuel Inventory

1 T. Coal @ \$8.50

Office Supplies Inventory

Stationery and Office Supplies, \$17.25

The furniture and furnishings are valued at the cost price.

Closing the Set. Rule, foot, and post the totals of purchases, sales, and cash journals.

Foot, in pencil, all accounts having more than one item.

Take a trial balance of the ledger, omitting all accounts that balance. Record it in Blank A on the page indicated by the index.

Hand the books to the instructor for inspection and approval.

Prepare a profit and loss statement and a balance sheet, and record them in Blank A on the pages indicated by the index.

Close the ledger.

Be certain to make and post the adjusting entries.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

Exercise 73. Written

MONTHLY BANK STATEMENT

1. Make out the monthly bank statement for the month of May, Set III.

The following checks were unpaid at the end of the month:

CHECK NUMBER	DATE	AMOUNT
40	5/31	\$23.50
41	5/31	370.85

2. Prepare a reconciliation of bank-statement balance and check-book balance.

3. Prepare a reconciliation of bank-statement balance and check-book balance for William Blake as of Dec. 31 if his check-book balance on that date was \$725.40 and his bank-statement balance \$817.65. A check dated Dec. 28 to H. M. Hunter for \$145.30 was unpaid at the end of the month. A check of D. L. Jones for \$53.05 deposited by Mr. Blake was returned, marked "No Funds."

Exercise 74. Written

REVIEW

From the following trial balance, prepare

(a) the profit and loss statement;

(b) the balance sheet;

(c) the adjusting and closing journal entries.

G. L. Larson

TRIAL BALANCE

Oct. 31, 19—

Cash	\$972	
Notes Receivable	400	
W. B. Bennett	290	
C. E. Douglas	270	
F. J. Main	438	
Merchandise Inventory, Oct. 1	4,735	
Furniture and Furnishings	850	
Fuel Inventory	105	
Office Supplies Inventory	85	
Notes Payable		\$300
C. A. Bryant		330
E. G. Farley		285
G. L. Larson, Investment		7,000
G. L. Larson, Drawing	124	
Merchandise Sales		3,672
Sales Returns and Allowances	65	
Merchandise Discount on Purchases		28
Interest Income		2
Merchandise Purchases	2,851	
Purchases Returns and Allowances		125
Freight and Cartage In	62	
Rent Expense	125	
Salaries	300	
Cartage Out	38	
Merchandise Discount on Sales	31	
Interest Expense	1	
	<u>\$11,742</u>	<u>\$11,742</u>
Merchandise Inventory, Oct. 31	\$4,688	
Fuel Inventory	90	
Office Supplies Inventory	65	

CHAPTER XX

PARTNERSHIP ACCOUNTS

The Partnership. A partnership is a *contract relation* between two or more persons who combine their property, labor, or skill in a business, and who agree to share the profits and losses jointly. Although a partnership may be based upon an oral, implied, or written contract, the probability of misunderstanding and of dispute is greatly decreased if the contract be written. This text urges, therefore, that all partnership agreements be expressed in writing and that all partners discuss the meaning of each item in the agreement so that the contract finally signed will represent the common desires of all partners.

Articles of Copartnership. A written contract of partnership is called the *Articles of Copartnership*, and usually makes provisions for the following points:

1. Name of the firm.
2. Nature of the business.
3. Location of the business.
4. Date partnership is to commence and the period of its duration.
5. Amount of each partner's investment.
6. Provision for withdrawals.
7. Salaries to be paid the partners.
8. The keeping of accurate books of accounts which will clearly reflect the results of the business.
9. Division of profit or loss.
10. Duties and obligations of each partner.
11. Procedure at dissolution.

The following articles of copartnership assumed to have been agreed to by Joseph H. Bates and John K. Bacon illustrate the usual typical articles in a written partnership agreement:

ARTICLES OF COPARTNERSHIP

Articles of Copartnership made and entered into this first day of June, one thousand nine hundred and _____, between Joseph H. Bates of the City of Cleveland, County of Cuyahoga, and State of Ohio, and John K. Bacon of the City of Cleveland, County of Cuyahoga, and State of Ohio: *witnesseth:*

First. This copartnership is formed for the purpose of carrying on in said City of Cleveland a wholesale electrical appliance business under the firm name of Bates & Bacon, and shall continue for a period of four years from date hereof unless sooner dissolved by mutual consent.

Second. As his investment in the business, said Joseph H. Bates is to contribute: merchandise, \$3000; delivery equipment, \$1000.

Third. As his investment in the business, said John K. Bacon is to contribute cash, \$3500.

Fourth. Each partner shall be allowed a salary of \$150 per month. Such salaries shall be charged as an operating expense of the business.

Fifth. Neither partner shall withdraw any of his investment, except with the consent of the other partner. Withdrawals of cash or merchandise, in anticipation of profits, shall not exceed \$200 per month.

Sixth. A complete set of double-entry books of account shall be kept, which shall be closed monthly in order to determine the profit or loss for the period and which shall be audited annually by a certified public accountant.

Seventh. Profits and losses shall belong to, and be borne by, the said partners in equal shares. The share of each partner in the profits may be left in the business or withdrawn, as desired. Any loss resulting from operation shall be charged to the drawing accounts of the partners.

Eighth. Neither partner shall engage in any other business, but each partner shall devote his entire time and energy to the furtherance of aforesaid business.

Ninth. Neither partner shall, for the benefit of any third party, indorse any notes or negotiable paper, or become surety or guarantor or otherwise liable for the benefit of any third party, without the assent in writing of the other partner.

Tenth. At the end of the period specified as the duration of the partnership, or in case of dissolution mutually agreed upon before that date, the books shall be closed and the profit or loss ascertained. After the payment of all the indebtedness of the firm to outside creditors and to the aforesaid partners as individuals, the balance of the assets shall be distributed in proportion to the amounts standing to the credit of each partner.

To the faithful performance of all terms and conditions of these Articles of Copartnership, the undersigned partners hereby bind themselves, each to the other, his heirs, executors, administrators, or assigns.

In Witness Whereof, the parties have hereto affixed their hands and seals, in duplicate, the day and year first above written.

[Signed] { Joseph H. Bates [SEAL]
 { John K. Bacon [SEAL]

The Accounts of a Partnership. The preceding paragraphs of this chapter clearly show that the partnership is a type of business organization in which more than one person is interested. In all the work in this text up to this point, the businesses have been conducted by a single proprietor, who would make the investment in the business, would individually direct all its affairs, would receive all the profits and likewise would suffer all the losses which might result from operating the business. In a partnership, however, the investment is no longer made by one man, nor does one man receive all the profits or suffer all the losses. There must be, therefore, a sufficient number of

accounts to show the exact relationship of the partners to each other and to the business. Thus each partner would have an investment account and a drawing account, and so, instead of the one investment account and the one drawing account for the individual proprietor, there would be as many investment accounts and drawing accounts as there are partners.

The asset, liability, income, and expense accounts of a partnership would not differ from those kept for a similar business by an individual proprietor; the proprietary-interest accounts are the only accounts which would differ. As the name of this group of accounts implies, it shows the interests of the proprietor or proprietors in the ownership of the business.

Partners' Investment and Drawing Accounts. As above stated, each partner should have an *Investment* account and a *Drawing* account. The types of entries which would be made in each of these accounts are outlined below:

Partner's *Investment* account is credited with the investment made in the business; is debited with such amounts of his investment as may be withdrawn from the business in accordance with the articles of copartnership.

Partner's *Drawing* account is credited with the partner's proportion of the net profit for the period; is debited with the partner's proportion of the net loss for the period, with money or merchandise withdrawn for personal use, and with household or private bills paid with business funds.

In making withdrawals of money or merchandise, a partner assumes that his share of net profit will be at least enough to offset such withdrawals. A debit balance in a partner's *Drawing* account shows that the proprietor has withdrawn more than the net profit; a credit balance shows that the net profit is in excess of the withdrawals.

The Investment Account and the Drawing Account in the Balance Sheet. The following illustrations show how the balance of a partner's *Drawing* account is subtracted from or added to the balance of that partner's *Investment* account, in order to obtain the actual proprietary interest of that partner in the business. The total proprietary interest is the sum of the several partners' interests as just stated.

PROPRIETARY INTEREST			
J. B. Wilson, Investment		\$2000	
J. B. Wilson, Drawing			
Net Profit	\$500		
Withdrawals	<u>275</u>	<u>225</u>	\$2225
T. R. Hopkins, Investment		\$2000	
T. R. Hopkins, Drawing			
Net Profit	\$500		
Withdrawals	<u>550</u>	<u>50</u>	<u>1950</u>
Total Proprietary Interest			<u>\$4175</u>

The above proprietary-interest section of a balance sheet shows that J. B. Wilson withdrew but \$275 during a period when his share of the profits was \$500; and that

T. R. Hopkins withdrew \$550 when his share of the profits was \$500. Accordingly, the excess of Mr. Wilson's share of profits over his withdrawals is added to his *Investment* account, and the excess of Mr. Hopkins's withdrawals over his share of profits is subtracted from his *Investment* account.

It is not considered good business practice for a partner to constantly overdraw his share of the anticipated profits. In other words, a partner should not expect the business to pay his own personal household expenses when such items exceed his share of the probable profits.

Division of Profit and Loss. The profits and losses of a partnership are usually divided in one of the three following ways:

1. In proportion to a partner's investment.
2. In some arbitrary division.
3. In proportion to the average investment.

The articles of copartnership should always state exactly how the profits and losses should be divided; but unless an exact method of division is specified, the profits and losses will be divided equally.

Explanations and illustrations of the above methods of dividing profits and losses are given in Miner, Elwell, and Touton's "Business Arithmetic" (Ginn and Company), pp. 331-336. Each bookkeeping student should be familiar with them.

When the *Profit and Loss* account shows a credit balance, a net profit results. This net profit is divided between the partners in accordance with the partnership agreement, and the following illustrative general-journal entry may be made to record the division:

Profit and Loss	1000	—		
J. B. Wilson, Drawing			500	—
T. R. Hopkins, Drawing			500	—
To divide the net profit for the period between the partners in the agreed proportion.				

If the *Profit and Loss* account shows a debit balance, a net loss results. The following illustrative general-journal entry may be made to record the division of this net loss:

J. B. Wilson, Drawing	375	—		
T. R. Hopkins, Drawing	375	—		
Profit and Loss			750	—
To divide the net loss for the period between the partners in the agreed proportion.				

When the general-journal entry dividing the net profit or the net loss between the partners is posted to the ledger, the *Profit and Loss* account is closed.

Exercise 75. Written**PARTNERSHIP ACCOUNTS**

Prepare the proprietary-interest section of a balance sheet for each of the following:

1. H. D. Greene, Investment, \$1000; H. D. Greene, Drawing, debit balance, \$75; E. M. Baker, Investment, \$1000; E. M. Baker, Drawing, debit balance, \$125; Profit and Loss, credit balance, \$194.

2. H. R. Eaton, Investment, \$3000; H. R. Eaton, Drawing, debit balance, \$145; Arthur Lessing, Investment, \$3000; Arthur Lessing, Drawing, credit balance, \$120; Profit and Loss, debit balance, \$480.

3. James A. Hart, Investment, \$1500; James A. Hart, Drawing, credit balance, \$90; William Kellogg, Investment, \$1500; William Kellogg, Drawing, debit balance, \$80; Profit and Loss, credit balance, \$288.

4. Edward A. Pitman, Investment, \$2000; Edward A. Pitman, Drawing, credit balance, \$150; Frank E. Leonard, Investment, \$2000; Frank E. Leonard, Drawing, credit balance, \$90; Profit and Loss, debit balance, \$220.

5. Give the general-journal entries for closing the *Profit and Loss* account

(a) in Problem 1, where the *Profit and Loss* account showed a credit balance of \$194;

(b) in Problem 2, where the *Profit and Loss* account showed a debit balance of \$480;

(c) in Problem 3, where the *Profit and Loss* account showed a credit balance of \$288;

(d) in Problem 4, where the *Profit and Loss* account showed a debit balance of \$220.

Exercise 76. Oral**TOPICS FOR CLASS DISCUSSION**

1. Define a *partnership*.

2. What is the written contract of partnership called? Name some of its usual provisions. Why is it best to have such provisions written?

3. Distinguish between the accounts of a partnership and of an individual conducting the same kind of business.

4. State the debits and credits which may be made to a partner's *Investment* account; to a partner's *Drawing* account.

5. How may the profits and losses of a partnership be divided? If the exact method is not specified, how would the profits and losses be divided?

Exercise 77. Written

REVIEW

From each of the following trial balances, prepare

- (a) the profit and loss statement;
- (b) the balance sheet;
- (c) the adjusting and closing journal entries.

1

Harlan & Barber

TRIAL BALANCE

June 30, 19—

Cash	\$789.00	
Notes Receivable	436.40	
E. S. Graves	127.25	
F. A. Walker	362.50	
Merchandise Inventory, June 1	2670.25	
Furniture and Furnishings	260.00	
Fuel Inventory	30.00	
Office Supplies Inventory	52.50	
Notes Payable		\$365.00
D. M. Collins		287.65
H. R. Reading		146.80
Wm. Harlan, Investment		2000.00
Wm. Harlan, Drawing	190.00	
Henry Barber, Investment		2000.00
Henry Barber, Drawing	110.00	
Merchandise Sales		4362.45
Sales Returns and Allowances	186.05	
Merchandise Discount on Purchases		22.80
Interest Income		27.65
Merchandise Purchases	3472.15	
Purchases Returns and Allowances		162.50
Freight and Cartage In	184.30	
Rent Expense	150.00	
Salaries	300.00	
Merchandise Discount on Sales	37.60	
Interest Expense	16.85	
	<u>\$9374.85</u>	<u>\$9374.85</u>
Merchandise Inventory, June 30	\$2788.00	
Fuel Inventory	25.00	
Office Supplies Inventory	37.00	

2

Howard & Freeman

TRIAL BALANCE

July 31, 19—

Cash	\$588.45	
Notes Receivable	392.60	
John S. Melton	164.80	
King & Co.	410.65	
Merchandise Inventory, July 1	1575.00	
Furniture and Furnishings	225.00	
Fuel Inventory	65.00	
Office Supplies Inventory	27.50	
Notes Payable		\$248.75
John White		70.25
A. M. Turner		109.50
George M. Howard, Investment		1650.00
George M. Howard, Drawing	85.00	
H. S. Freeman, Investment		1650.00
H. S. Freeman, Drawing	170.00	
Merchandise Sales		2264.85
Sales Returns and Allowances	72.50	
Merchandise Discount on Purchases		26.35
Interest Income		37.15
Merchandise Purchases	1832.70	
Purchases Returns and Allowances		116.40
Freight and Cartage In	76.65	
Rent Expense	125.00	
Salaries	275.00	
Cartage Out	32.75	
Merchandise Discount on Sales	36.25	
Interest Expense	18.40	
	<u>\$6173.25</u>	<u>\$6173.25</u>
Merchandise Inventory, July 31	\$1392.80	
Fuel Inventory	55.00	
Office Supplies Inventory	18.00	

CHAPTER XXI

DRAFTS AND ACCEPTANCES

Bank Drafts. Buying and selling merchandise often involves transactions between business men and firms who have had no previous dealing with each other and where the seller has little or no information as to the financial standing of the buyer. Without such information many business houses would not accept the ordinary personal check of the buyer, drawn upon his local bank. Again, the banks in many cities charge for the collection of out-of-town personal checks, and to avoid difficulties often encountered in trying to collect such charges from their customers many business houses refuse to accept out-of-town personal checks.

One of the most frequent forms of remittance used, subject to neither of the above objections, is the *bank draft*, which is the check of one bank upon another.

A bank may have parts of its funds on deposit with other banks, in the same city or in other cities, and may draw checks (called bank drafts) against such accounts.

To illustrate, assume that John L. Spooner, of McGregor, Iowa, selects merchandise costing \$289.75 from the catalogue of E. C. Burton & Co., New York City. Since Mr. Spooner has not had previous dealings with this New York firm, he is unknown to them; and to insure prompt shipment of the merchandise, it would be best for Mr. Spooner to send them a bank draft. He would make out the following check and take it to his bank.

No. <u>167</u>	Mc GREGOR, IOWA <u>July 23</u> , 19 <u> </u>
MCGREGOR CITY BANK	
PAY TO THE ORDER OF <u>N Y draft (289⁷⁵) Exch (30¢)</u>	<u>\$ 290⁰⁵</u>
<u>Two hundred ninety ⁰⁵/₁₀₀</u>	<u> </u> DOLLARS
<u>John L. Spooner</u>	

Note that the check on page 221 is drawn for \$290.05; 30¢ more than the face of the draft. This additional amount is the charge made by some banks for a bank draft of this sum. This charge is entered on the cash-paid side of the cash journal under the account name *Collection and Exchange*. This account is further explained and illustrated on page 226.

There is no uniform custom of charging for checks offered for collection or for issuing bank drafts. When charges are made, they range from $\frac{1}{10}\%$ to $\frac{1}{4}\%$. Different sections of the country do not follow a uniform plan in charging for the collection of checks.

In exchange for this check the McGregor City Bank will issue the following bank draft:

No. <u>872</u>	McGREGOR, IOWA <u>July 23, 19</u>
McGREGOR CITY BANK	
PAY TO THE ORDER OF	<u>John L. Spooner</u> \$ <u>289⁷⁵</u> <u>Two hundred eighty nine ⁷⁵/₁₀₀</u> DOLLARS
TO NEW YORK CITY BANK NEW YORK, N. Y.	<u>E. C. Jordan</u> CASHIER

A BANK DRAFT

This bank draft shows that it is payable to the order of Mr. Spooner. He indorses it to E. C. Burton & Co. and sends it to them with his order.

A bank draft is usually made payable to the purchaser, who indorses it and sends it on to the person or firm with whom he is dealing. Sometimes the buyer of the draft requests that it be made payable to the one to whom it is to be sent. If this is done, care must be taken by the one receiving the remittance to be certain that the draft and the letter or order blank are not separated, because the name of the remitter is not on the draft.

Entries for Bank Drafts. John L. Spooner would make the following entries on the cash-paid side of his cash journal when he drew the check for the amount of the draft and the exchange charges:

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH	MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS
July 23		E. C. Burton & Co.	Draft for Mdse.	289 75		289 75
23		Collection and Exch.	Exchange on Dft.	30		30

The sending of this bank draft really means that Mr. Spooner is paying for his merchandise in advance. Thus a creditor's account is debited before it is credited, but the account is balanced when the merchandise is received and the account is credited.

When E. C. Burton & Co. receive the draft, they will make an entry on the cash-received side of their cash journal, as follows :

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
July 25		John L. Spooner	Draft for Inv. 7/25	289 75		289 75

As soon as the goods were ready for shipment the proper entry would be made in E. C. Burton & Co.'s sales journal. E. C. Burton & Co. would deposit this draft in the bank, the same as a check, but would not be asked to pay for its collection.

Exercise 78. Oral

BANK DRAFTS

1. Define a *bank draft*, and state why it is used.
2. State why it is advisable for a bank draft to be made out to the purchaser, rather than to the person or firm to which it is to be sent.
3. C. H. Stafford purchased a bank draft for \$250 (the bank made no charge for the draft) and sent it to M. S. French, with an order for merchandise of this amount. State the entries on Stafford's books and on French's books.
4. W. S. Malone sent T. B. Lyons a bank draft for \$500 to apply on account. The bank charged Mr. Malone 50¢ for the draft. State the entries on the books of both Malone and Lyons.

Commercial Drafts. A commercial draft is an order drawn by a creditor on a debtor to pay a certain sum of money either to the creditor himself or to a person designated by him.

Commercial drafts are used for the collection of accounts. As in the case of checks, drafts permit the settlement of debts without the risk or inconvenience of transmitting money.

There may be three parties to a commercial draft: the drawer, the drawee, and the payee.

The person who draws the draft is called the *drawer*.

The person upon whom the draft is drawn is called the *drawee*.

The person to whom the money is payable is called the *payee*.

The commercial drafts considered in this text are all two-party drafts — the drawer and the payee are the same person.

Commercial drafts may be classified according to time of payment as *sight drafts* and *time drafts*.

Sight Draft. A sight draft is an order drawn by the creditor on the debtor for immediate payment of the amount on presentation (at sight).

Sight drafts are used very frequently to collect overdue accounts. After the usual methods of collecting a debt have been used, the creditor may, after notice, draw a sight draft on the debtor and send it to the debtor's bank for collection. While the debtor may refuse to pay the draft, he would hesitate to do so unless he had some very good reason for not paying it, because of the possible injury to his financial standing with the bank.

The following is a form of sight draft :

\$ <u>290⁵⁰</u>	MANCHESTER, N. Y. <u>June 12, 19—</u>
<u>At sight</u>	PAY TO THE ORDER OF
<u>Ourselves</u>	
<u>Two hundred ninety ⁵⁰/₁₀₀</u>	DOLLARS
VALUE RECEIVED AND CHARGE TO THE ACCOUNT OF	
To <u>William A. Foley</u>	<u>Samuel Wilson & Co.</u>
DUE <u>Boston, Mass.</u>	<u>per S. A. W.</u>

A SIGHT DRAFT

In this draft Samuel Wilson & Co. order William A. Foley to pay them \$290.50 upon presentation of the draft.

Samuel Wilson & Co. will indorse the draft as shown at the left, below, and leave it at the Manchester City Bank for collection.

Pay to the order of

Manchester City Bank

Samuel Wilson & Co.

per S. A. W.

THE CREDITOR'S INDORSEMENT
OF A SIGHT DRAFT

PAY TO THE ORDER OF

BOSTON CITY BANK

BOSTON, MASS.

MANCHESTER CITY BANK

F. L. THOMAS, CASHIER

THE BANK'S INDORSEMENT OF A
SIGHT DRAFT

The bank will again indorse the draft as shown at right above, and will forward it to the Boston City Bank, with which they have an

account. The Boston City Bank will present the draft to William A. Foley and collect the money and notify the Manchester City Bank that the draft has been collected and the amount credited to the account of the Manchester City Bank. The Manchester City Bank, in turn, notifies Samuel Wilson & Co. that the amount of the draft, less collection charges, has been credited to their account.

The collection charges would be debited on the books of Samuel Wilson & Co. to an account called *Collection and Exchange*, explained and illustrated on page 226.

Very frequently the drawer makes a sight draft payable to a bank, rather than to himself, and thus it is unnecessary for him to indorse the draft after it is made out.

The same procedure would be followed in collecting this draft as was explained for the draft which was drawn by Samuel Wilson & Co. payable to *Ourselves* — the Manchester City Bank would forward the draft to the Boston City Bank, with which they have an account, the latter would present the draft and collect the amount from William A. Foley, the Boston City Bank would notify the Manchester City Bank that the amount had been credited to their account, and the Manchester City Bank would notify Samuel Wilson & Co. that the amount of the draft, less collection charges, had been placed to the credit of their account.

Entries for Sight Drafts. Drawer's Books. At the time of drawing a draft the drawer does not know whether the drawee is going to pay the draft upon presentation. The drawer, therefore, does not make any entry at the time of drawing the draft, but merely keeps a memorandum of the draft. This memorandum may consist of a copy of the letter to the drawee notifying him that a sight draft would be drawn upon him on a certain day. A notation would undoubtedly be made on this copy that a draft had been so drawn. When notified that the draft is paid, the drawer makes the same entry as if a payment on account were received.

Samuel Wilson & Co., the drawer of the draft on page 224, would make no entry on their books at the time the draft was drawn. When the Manchester City Bank notified them that the sight draft had been collected, Samuel Wilson & Co. would make the following entry on the debit side of the cash journal for the face of the draft:

DATE		F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
June	15		William A. Foley	Sight Draft of 6/12	290	50		290 50

The amount of the bank's charges for collecting the draft is entered on the cash-paid side of the cash journal under the account name *Collection and Exchange*. This account is further explained and illustrated on page 226.

Drawee's Books. The drawee, when he pays the draft, considers it the same as a payment on account.

William A. Foley, when he paid the draft on page 224, would make the following entry in the cash journal:

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS	
June	14		Samuel Wilson & Co.	Sight Draft	290	50		290	50

Collection and Exchange. When a bank makes a charge for issuing a bank draft, or for collecting a check or sight draft, or for collecting sundry other negotiable instruments offered for collection, the person paying such charges debits the amount to an account called *Collection and Exchange*. This account is closed into the *Profit and Loss* account at the end of a fiscal period and appears in the profit and loss statement under "Other Expense" along with the accounts *Interest Expense* and *Merchandise Discount on Sales*.

To illustrate, it was assumed on page 221 that the City Bank charged Mr. Spooner 30¢ for the New York bank draft. The entry to record this charge is shown in the cash journal on page 222, where the *Collection and Exchange* account is debited with 30¢.

Again, assume that the Manchester City Bank charged Samuel Wilson & Co. 30¢ for collecting the sight draft of \$290.50 drawn on William A. Foley. The entry to record this bank charge would appear on the credit side of the cash journal, as follows:

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS	
June	15		Collection and Exchange	Sight draft on William A. Foley		30			30

The similarity between the charges made by the banks for issuing the bank draft and for collecting the sight draft may be assumed to be due to the fact that each of these banks charged approximately $\frac{1}{10}\%$ for their services.

If there were a large number of collection and exchange items, a special column might be provided in the cash journal for entering these amounts, so that at the end of a month, the total of the Collection and Exchange column might be posted in one sum to the debit of the *Collection and Exchange* account. In this text, however, there are not a sufficient number of collection and exchange items to warrant providing a special column.

Expressed in the form of a general journal entry, the record made in Wilson's general journal would be as follows:

Cash	\$290.20	
Collection and Exchange	.30	
William A. Foley		\$290.50

When the cash journal is used for recording such entries, it should be noted that *Cash* is debited for the total, \$290.50, and that the amount paid for collection and exchange is recorded on the credit side. The net effect is of course the same as that shown in this general-journal entry.

Summary of Rules for Recording Sight Drafts. From the foregoing discussion and illustrations the following rules for recording sight drafts may be deduced:

1. No entry is made on the drawer's books when a sight draft is drawn.
2. When the drawee pays the draft, he makes an entry to the debit of the drawer on the cash-paid side of the cash journal.
3. When the drawer is notified by his bank that the draft has been collected, he makes an entry to the credit of the drawee on the cash-received side of the cash journal.

Expressed in the form of general-journal entries, these entries appear as follows:

When the drawee pays the draft:

Drawer
Cash

When the drawer is notified that the draft has been collected:

Cash
Drawee

If the bank makes a charge for collecting the draft, the drawer debits *Collection and Exchange* and credits *Cash* for the amount of such charge.

Exercise 79. Oral and Written

SIGHT DRAFTS

1. Give definitions of the following terms: *draft*, *drawer*, *drawee*, *payee*, *sight draft*.
2. Explain how a sight draft may aid in the collection of a debt. Under what circumstances would it be used?
3. Under what circumstances may a person draw a sight draft on another person? Is the drawee bound to pay a sight draft?
4. What is a check? What is the difference between a check and a sight draft?
5. When a sight draft is drawn payable to a bank, in what capacity does the bank act?
6. How would you indorse a sight draft left at the City Bank for collection?

7. Write each of the following sight drafts:

DRAWER	PAYEE	DRAWEE	AMOUNT
a. A. R. Breen & Co (Your City)	Themselves	Arthur Hamel (Albany, N. Y.)	\$700.00
b. Student (Your City)	Myself	William Hanson (Columbus, Ohio)	\$500.00
c. L. S. Smith (Chicago, Ill.)	First National Bank (Your City)	Student (Your City)	\$300.60

8. Assuming that you are keeping the books of the drawer of the above drafts, would you make any entry at the time the draft is drawn?

9. Give the entries which would be made in the cash journal of the drawees in question 7, assuming that all drafts were paid upon presentation.

10. Give the entries which would be made in the drawer's cash journal when he is notified that the drafts are paid.

11. In question 7, *b*, how would you proceed to collect the draft from William Hanson in Columbus, Ohio?

12. M. A. Long, Atlanta, Ga., owes you \$160 on account. Draw a sight draft on him, dated June 6, in favor of yourself, indorse it and leave it at the First National Bank for collection. On June 8 the bank notifies you that the draft has been collected. Make the entry on the drawer's books; on the drawee's.

Time Drafts. A *time draft* is an order drawn by a creditor upon a debtor to pay a sum of money at some future date. There are two kinds of time drafts: those payable a certain time after date and those payable a certain time after sight.

Inasmuch as a draft is an order to pay, the drawee must consent to comply with the order before there is any legal obligation on his part. The drawee indicates his willingness to pay the draft on the future date by writing across the face of the draft "Accepted" and signing his name below. For this reason, time drafts are often called *acceptances*. The one who accepts a time draft is called the acceptor. His acceptance means that he promises to pay the amount of the draft at maturity, the same as if he had written a promissory note.

Time Draft Payable after Date. In a time draft payable after date the time begins to run with the date of the draft, and the maturity date of such a draft is found by adding the number of days stated in the draft to the date the draft was drawn. Thus the following draft is payable 10 da. after June 8, the date it was drawn. It is therefore due on June 18.

The following is a time draft payable after date:

\$ <u>784⁶⁰</u>	St. Louis, Mo. <u>June 8, 19--</u>
<u>Ten days after date</u> Pay to the order of	
<u>Ourselves</u>	
<u>Seven hundred eighty-four ⁶⁰/₁₀₀</u> DOLLARS	
VALUE RECEIVED AND CHARGE TO THE ACCOUNT OF	
To <u>Edward Treen</u>	<u>Ford & Long Co</u>
<u>Milwaukee, Wis.</u>	<u>per A. M. Long</u>
DUE <u>6/18</u>	

A TIME DRAFT PAYABLE AFTER DATE

Upon accepting the draft, Edward Treen promises to pay the amount of the draft at maturity, so that it is the same as though he had given a 10-day promissory note.

Time Draft Payable after Sight. The difference between a time draft payable after date and one payable after sight is that the date of maturity of a draft payable after sight is determined by the date the draft was presented and accepted. Thus, on a draft payable after sight the date of acceptance *must* be stated in order to determine the maturity date. The following is a time draft payable after sight:

"30 days after sight" is sometimes expressed as "at 30 days sight."

\$ <u>475⁸⁰</u>	Kansas City, Mo. <u>August 22, 19--</u>
<u>Thirty days after sight</u> Pay to the order of	
<u>Ourselves</u>	
<u>Four hundred seventy-five ⁸⁰/₁₀₀</u> Dollars	
Value received and charge to the account of	
To <u>Jas. A. Simpson & Sons</u>	<u>John Walsh & Co</u>
<u>Louisville, Ky.</u>	<u>per John Walsh</u>
DUE <u>9/24</u>	

A TIME DRAFT PAYABLE AFTER SIGHT

The maturity date of a draft payable after sight is found by adding the number of days stated in the draft to the date the draft was

accepted. Thus, the above draft is payable 30 da. after Aug. 25, the date it was accepted. It is therefore due on Sept. 24.

If the date of acceptance is not written on a draft payable after sight, the date of the draft is taken as the date of acceptance.

Honoring Drafts. A common expression used in the business world is "to honor" a draft. In the case of a sight draft, "to honor" means to pay it; in the case of a time draft, "to honor" means to accept it.

Entries for Time Drafts. When a two-party time draft is drawn, no entries are made on the books of either the drawee or the drawer. This is owing to the fact that there is no legal value to a time draft until it has been accepted. Entries are made upon the books of the drawee and the drawer immediately after acceptance.

Drawee's Entry. The drawee, by accepting the draft, *promises to pay* the drawer the specified sum at the future date. After acceptance, a time draft may be treated as a note payable by the drawee and recorded in the *Notes Payable* account.

Jas. A. Simpson & Sons' entry on Aug. 25, when they accepted the draft, would be made in the general journal as follows:

25					
John Walsh & Co.		475	80		
Notes Payable				475	80
Accepted the sight draft of John Walsh & Co., due after 30 da., in full of account.					

Drawer's Entry. The accepted draft, when received by the drawer, is the same as a note receivable and may be recorded in the *Notes Receivable* account.

John Walsh & Co. would make the following entry when they received the accepted draft of Jas. A. Simpson & Sons:

26					
Notes Receivable		475	80		
Jas. A. Simpson & Sons				475	80
Received Jas. A. Simpson & Sons' 30-day sight draft, accepted 8/25, in full of account.					

When Jas. A. Simpson & Sons paid the acceptance, they would debit *Notes Payable* and credit *Cash*; and likewise when John Walsh & Co. received the Simpson remittance, they would debit *Cash* and credit *Notes Receivable* and return the acceptance, marked "Paid," to Jas. A. Simpson & Sons.

It may be desirable in some cases to keep the notes separate from the accepted drafts. In such instances an account *Drafts Payable* might be opened on the books of the drawee and an account *Drafts Receivable* on the books of the drawer.

Trade Acceptances. A trade acceptance has been defined by the Federal Reserve Board as a draft, or bill of exchange, drawn by the seller of goods on the purchaser, and accepted by said purchaser. The seller of the goods, therefore, has the trade acceptance of the purchaser; he does not have a personal book account with the purchaser.

A form of trade acceptance, approved by the Federal Reserve Board, is illustrated below:

TRADE ACCEPTANCE <small>FORM APPROVED BY THE AMERICAN TRADE ACCEPTANCE COUNCIL</small>	No. 25	Chicago, Illinois	May 10	19--
		(CITY OF DRAWER)	(DATE)	
	ON June 9, 19--	PAY TO THE ORDER OF OURSELVES		
	(DATE OF MATURITY)			
	Nine hundred ^{no} / ₁₀₀	DOLLARS (\$900 ⁰⁰)		
<small>THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAWEE MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER, OR TRUST COMPANY IN THE UNITED STATES WHICH HE MAY DESIGNATE.</small>				
TO John A. Davis				
(NAME OF DRAWEE)				
123 Court St.				
(STREET ADDRESS)				
Rockford, Illinois				
(CITY OF DRAWEE)				
William Stone (SIGNATURE OF DRAWER)				
BY J. Harris				

A TRADE ACCEPTANCE

The trade acceptance is very similar to a two-party time draft. The important difference between the two is the statement on the face of the trade acceptance that the obligation arises from a current purchase of goods from the drawer. The ordinary two-party time draft may or may not result from a current transaction.

The Federal Reserve Board encourages the use of the trade acceptance as a substitute for book accounts. Among the reasons why trade acceptances are preferable to book accounts are the following:

1. The seller obtains a written evidence of indebtedness which is more satisfactory than mere book accounts because of the greater probability of payment when due. Written evidence of the debt also allows very little chance for dispute over the amount of the invoice.
2. The seller will have a negotiable trade acceptance which, under the regulations of the Federal Reserve Board, may be discounted at a member bank at a lower rate of interest than is usually charged on a promissory note.
3. The seller will have but few trade accounts receivable upon his books, and as a result both collection expense and the loss from bad debts will be greatly reduced. The taking of discounts to which a buyer is not entitled and the unwarranted return of merchandise by the purchaser will be decreased, if not entirely eliminated, and thus a further saving will accrue to the seller.

4. The purchaser will buy merchandise with a greater regard for paying for it at a definite time, and undoubtedly this will result in carrying smaller stocks, but more adapted to the needs of the trade. This means a larger profit for the purchaser.

The acceptance by the purchaser obligates him to do nothing more than he is supposed to do — pay for the merchandise at the expiration of the regular credit period. No interest is charged if the trade acceptance is paid at maturity.

The trade acceptance illustrated on page 231 would be made out by William Stone at the time he sold the goods to John A. Davis. It is drawn for 30 da., the regular credit period, and is sent to Mr. Davis, who accepts it by indicating the date of acceptance, by signing his name, and by filling out the other lines relative to the payment of the acceptance.

By accepting, Mr. Davis promises to pay the instrument at maturity. It is, therefore, as far as he is concerned, a promise to pay.

Entries for Trade Acceptances. Trade acceptances receivable and payable may be recorded in the *Notes Receivable* and *Notes Payable* accounts, respectively. In view of the fact, however, that a trade acceptance may be discounted at a Federal Reserve Bank more readily than the usual note, it is highly advisable that accounts be kept with trade acceptances, separate and distinct from the note accounts. Accordingly, all trade acceptances receivable may be recorded in the *Trade Acceptances Receivable* account, and all trade acceptances payable may be recorded in the *Trade Acceptances Payable* account.

The general-journal entry made by the drawee, Mr. Davis, at the time of acceptance would be :

William Stone	900	—		
Trade Acceptances Payable			900	—
Accepted the trade acceptance of				
William Stone, due June 9, in full of				
invoice of May 10.				

The trade acceptance is of no value until signed by the person on whom it is drawn. William Stone, therefore, would make no entry for the acceptance until he received it back signed by John A. Davis. When returned to Mr. Stone, properly signed, the general-journal entry would be as follows :

Trade Acceptances Receivable	900	—		
John A. Davis			900	—
Received John A. Davis's trade				
acceptance, due June 9, in full of				
invoice of May 10.				

Charging Notes, Drafts, or Acceptances against Depositors' Accounts. When a bank holds or receives a note, draft, or acceptance upon one of its depositors, it is the custom in some parts of the country to charge these notes, drafts, and acceptances against the depositor's account at maturity. This practice is not uniform, however, and in some places, notably in Chicago and several large Western cities, the banks require their patrons to meet all such paper by check.

Court decisions and special laws in force in a number of states hold that notes, acceptances, etc. made payable at a bank are orders upon that bank and may be charged to a depositor's account at maturity the same as a regular check. In such states many banks charge notes etc. to their patrons' accounts at maturity, after formal notice has been given the depositor.

Summary of Drafts and Acceptances. Kinds of drafts:

Two-party sight: payable on presentation; drawer and payee the same person.

Two-party time: payable at future date; acceptance of drawee required; drawer and payee the same person.

Drawer's entries:

Two-party sight: when draft is paid debit *Cash* and credit *Drawee*; if collection charges are incurred, debit *Collection and Exchange* and credit *Cash*; when draft or trade acceptance is accepted, debit *Notes Receivable* or *Trade Acceptances Receivable* and credit *Drawee*; when draft or trade acceptance is paid, debit *Cash* and credit *Notes Receivable* or *Trade Acceptances Receivable*.

Drawee's entries:

Two-party sight: upon paying draft, debit *Drawer* and credit *Cash*.

Two-party time draft and acceptance: when draft or trade acceptance is accepted, debit *Drawer* and credit *Notes Payable* or *Trade Acceptances Payable*; when draft or trade acceptance is paid, debit *Notes Payable* or *Trade Acceptances Payable* and credit *Cash*.

Exercise 80. Written

TIME DRAFTS AND ACCEPTANCES

1. On a sheet of plain paper write the following drafts and acceptances:

DATE	TIME	AMOUNT	DRAWER	DRAWEE	DATE OF ACCEPTANCE
a. June 2	30 da. after sight	\$400	H. K. Olsen & Co. Baltimore, Md.	Student (Your City)	June 5
b. June 16	20 da. after date	\$600	Student (Your City)	A. L. Billings, New Haven, Conn.	June 18 Trade Ac- ceptance

2. On a sheet of ledger paper, set up the accounts as they would appear on the books of the drawer before the above drafts were drawn.

3. On a sheet of journal paper, make the entries on the books of the drawer, assuming that all the drafts were accepted.

4. Using a sheet of journal paper for the cash journal of the drawer, make the entries for the payment of the above acceptances or drafts.

5. Post the general-journal and cash-journal entries.

6. Assuming that you are keeping the books of the drawee, set up the ledger accounts as they would appear before the above drafts or trade acceptances were accepted.

7. On a sheet of journal paper, make the entries for the drawee when these drafts were accepted.

8. Using the lower part of the journal sheet used in problem 4 for the cash journal of the drawee, make entries which would be made when these drafts were paid.

9. Post the general-journal and cash-journal entries.

Exercise 81. Written

DRAFTS AND TRADE ACCEPTANCES

Make the entries for the following transactions in the books of Samuel L. Evans, using a general journal and a cash journal:

All addresses are omitted in this exercise.

Oct. 1, 19—. Draw a sight draft on L. K. Burns for \$600, the amount owed by him.

NO.	DATE RECD.	DRAWEE OR MAKER	DRAWER OR ENDORSER	IN PAYMENT OF	WHERE PAYABLE	DATE	
						DRAWN	ACCEPTED
1	3/5	W. L. Page		Inv. of 3/1	Union Bank	3/5	
2	3/10	A. M. Moore	E. T. Rogers	On account	1st Nat'l	3/10	
3	3/10	B. K. Sayles		On account	1st Nat'l	3/8	
4	3/12	Fuller & Co.		On account		3/12	
5	3/16	Hall & Brown		Inv. of 3/12		3/12	

NO.	DATE GIVEN	PAYEE	IN PAYMENT OF	WHERE PAYABLE	DATE	
					DRAWN	ACCEPTED
1	3/12	B. K. Knapp	On account		3/12	
2	3/5	C. E. Allen	Inv. of 3/3		3/3	3/5

2. Accept a 10-day trade acceptance drawn by L. A. Rose for \$1200, in payment for goods bought from him on Sept. 29.

3. Receive a check for \$600 from L. K. Burns in payment for sight draft drawn on him on Oct. 1.

4. Draw on R. K. Wright a draft for \$400, payable 10 da. after date, for goods sold him on Sept. 3.

6. Receive of R. K. Wright the accepted draft drawn on him on Oct. 4.

9. Sell B. R. Mays merchandise, \$1300. Draw a 20-day trade acceptance on him for the amount of the invoice.

9. Pay L. A. Rose by check for our trade acceptance dated Sept. 29.

11. Receive of B. R. Mays his accepted trade acceptance drawn on him on Oct. 9.

13. Receive from R. K. Wright a check for \$400 in payment of draft drawn on him on Oct. 4.

16. Receive of L. K. Jones his draft for \$575, dated Oct. 15, payable 10 da. after sight, for balance due him. Return the draft to him accepted.

23. Pay F. A. Lane by check for the sight draft drawn on us today, \$420.

26. Pay L. K. Jones cash for his draft due today, \$575.

29. Receive of B. R. Mays a check for \$1300, for his trade acceptance dated Oct. 9.

Note Register. The note register is a book in which are recorded all memoranda relating to notes, drafts, and trade acceptances received and given. It is a detailed record furnishing complete information

INT. RATE	TIME	DUE	AMOUNT	DISPOSITION		REMARKS
				HOW	DATE	
6%	20 da.	3/25	500—	Paid	3/25	
5	20 da.	3/30	200—	Paid	3/30	
	1 mo.	4/10	500—			
6	10 da.	3/22	1000—	Dishonored	3/22	Sight Draft Fuller & Co. failed to meet note; charged back to account
	30 da.	4/11	300—			Trade Acceptance

INT. RATE	TIME	DUE	AMOUNT	PAID		REMARKS
				HOW	DATE	
6%	2 mo.	5/2	500—			
	20 da.	3/23	300—	Check #30	3/23	Trade Acceptance

regarding the notes, drafts, and trade acceptances owned by the business as shown by the *Notes Receivable* and *Trade Acceptances Receivable* accounts and the notes, drafts, and trade acceptances owed by the business as shown by the *Notes Payable* and *Trade Acceptances Payable* accounts. The recording of all data relative to notes in a note register makes unnecessary frequent reference to the notes themselves to learn the due date, place payable, interest rate, etc. The notes should be kept in a safe or in a safety-deposit box, where the probability of having these valuable papers lost, stolen, or burned is greatly decreased. Generally, no postings are made from the note register, it being used merely to supplement the record made for notes, drafts, and trade acceptances in the books of original entry.

The note register is divided into two sections, known as the *notes-receivable register* and the *notes-payable register*. A ruling of each of these registers is given on pages 234 and 235, and several items are entered in each register, so that the use of the columns may be seen readily. All details of each note, draft, or acceptance should always be entered in the appropriate columns.

The total of the unpaid notes, drafts, and acceptances as shown by the notes-receivable register should agree with the sum of the balances of the *Notes Receivable* account and of the *Trade Acceptances Receivable* account, and the total of the unpaid notes, drafts, and acceptances in the notes-payable register should agree with the sum of the balances of the *Notes Payable* account and of the *Trade Acceptances Payable* account.

Exercise 82. Written

NOTE REGISTER

Rule on plain paper a note register similar to the form given on pages 234 and 235, allowing for ten notes receivable and eight notes payable. Make entries for the following notes in the general journal and cash journal of William Jones and write the details of the notes in the note register.

In this exercise record notes, drafts, and acceptances in the *Notes Receivable* and *Notes Payable* accounts. Do not post to the ledger accounts.

Note that in this exercise separate accounts are not kept for *Trade Acceptances Receivable* and *Trade Acceptances Payable*.

March 2, 19—. Give B. K. Knapp a note for \$500, dated today, due in 2 mo., with interest at 6%, to apply on account.

5. Receive of W. L. Page his note for \$500, dated March 5, due in 20 da., with interest at 6%, payable at the Union Bank, in payment of invoice of March 1.

5. Accept the 20-day trade acceptance for \$300, dated March 3, drawn on us by C. E. Allen, in payment of invoice of March 3.

8. Draw a draft on B. K. Sayles for \$500, due 1 mo. after sight, payable at the First National Bank, in full of account.

10. Receive of E. T. Rogers a note dated March 10, made by A. M. Moore and indorsed by Mr. Rogers, for \$200, due in 20 da., with interest at 5%, payable at the First National Bank, to apply on account.

10. B. K. Sayles returns the sight draft drawn on him March 8, accepted on March 10.

12. Receive of Fuller & Co. their note for \$1000, dated March 12, due in 10 da., with interest at 6%, in full of account.

12. Draw a trade acceptance on Hall & Brown for \$300, dated today, due in 30 da., for invoice of March 12, and send it to them for acceptance.

16. Receive of Hall & Brown their trade acceptance, accepted March 15.

16. Send J. M. Davis our note for \$750, dated March 15, due in 10 da., with interest at 6%, in payment of invoice of March 15.

17. Receive of H. E. Piper his note for \$500, dated March 16, due in 10 da., with interest at 6%, payable at our office, in payment of invoice of March 16.

18. Draw a trade acceptance on R. H. Osborn, for \$350, dated today, due in 30 da., for the invoice of March 18, and send it to him for acceptance.

19. Send the Kennedy Co. our note for \$400, dated March 17, due in 10 da., with interest at 6%, payable at their office, in payment of their invoice of March 16.

20. Receive of R. H. Osborn his trade acceptance, accepted March 19.

22. Fuller & Co. fail to pay their note dated March 12, with interest.

When notes receivable and interest are not paid at maturity, some firms immediately debit the maker of the note, in an open-book account, for the face of the note and such interest as may be due, and credit *Notes Receivable* and *Interest Income* for the appropriate amounts. Other business houses keep the note in the *Notes Receivable* account, write the maker relative to payment, and make no entry for note or for the interest until the note is paid. For purposes of this exercise, assume that William Jones decides to debit *Fuller & Co.* for the amount of the note and interest and that the note would no longer be recorded in the *Notes Receivable* account on the ledger of William Jones.

23. Pay C. E. Allen by check No. 30, for our trade acceptance dated March 3.

24. Receive of Vale & Co. a draft drawn on us March 22 for \$275, payable 30 da. after sight at the First National Bank, in full of account. Accept the draft and return it to Vale & Co.

25. Receive of W. L. Page his check, in payment of his note dated March 5, with interest.

25. Pay J. M. Davis by check No. 38, for our note dated March 15 with interest.

26. Receive of H. E. Piper his check in payment of his note dated March 16, with interest.

27. Pay the Kennedy Co. by check No. 47, for our note dated March 17, with interest.

30. Receive of A. M. Moore a check in payment of his note dated March 10, with interest.

If the above entries were posted, the *Notes Receivable* and *Notes Payable* accounts would appear as follows:

NOTES RECEIVABLE

19—						19—					
Mar.	5	G. J.	1	500	—	Mar.	22	G. J.	3	1000	—
	10	G. J.	1	200	—		25	C. J.	1	500	—
	10	G. J.	1	500	—		26	C. J.	1	500	—
	12	G. J.	1	1000	—		30	C. J.	1	200	—
	16	G. J.	2	300	—						
	17	G. J.	2	500	—						
	20	G. J.	2	350	—						

NOTES PAYABLE

19—						19—					
Mar.	23	C. J.	2	300	—	Mar.	2	G. J.	1	500	—
	25	C. J.	2	750	—		5	G. J.	1	300	—
	27	C. J.	2	400	—		16	G. J.	2	750	—
							19	G. J.	2	400	—
							24	G. J.	3	275	—

The balance of the *Notes Receivable* account should agree with the sum of the unpaid notes, drafts, and acceptances in the notes-receivable register, and the balance of the *Notes Payable* account should agree with the sum of the unpaid notes, drafts, and acceptances in the notes-payable register.

Exercise 83. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *time draft*, *time draft payable after date*, *time draft payable after sight*, *trade acceptance*.

2. State the exact difference between a draft payable 10 da. after date and one payable 10 da. after sight.

3. How is a draft payable after date accepted? a draft payable after sight?

4. What entry does the drawee make when he accepts a time draft?

5. What entry does the drawer make when he receives an accepted time draft?

6. On June 10 J. C. Haskins drew a draft payable 15 da. after sight on T. M. Connor, which Mr. Connor accepted June 12. State the date the draft is due, how the acceptance was worded on the draft, the entries on Mr. Connor's books and on Mr. Haskins's books.

7. On July 8 T. B. Shaw drew a draft payable 20 da. after date on B. R. Wright. State the date the draft is due, how the acceptance was worded on the draft, the entries on Mr. Shaw's books and on Mr. Wright's books.

8. Distinguish between a trade acceptance and a draft.

9. What are some of the reasons why the Federal Reserve Board encourages the use of trade acceptances as a substitute for bank accounts?

10. What entry is made by the drawee when he accepts a trade acceptance?

11. What entry is made by the drawer when he receives a trade acceptance which has been accepted?

12. On July 1 F. A. Miller sold merchandise to William C. Hudson to the amount of \$286.25. Terms: 20-day trade acceptance. Mr. Hudson accepted the trade acceptance on July 3 and returned it to Mr. Miller. State the date the trade acceptance is due and how Mr. Hudson signifies that he is willing to pay it at maturity.

13. On July 5 T. S. Frey sold merchandise to M. T. Ryan to the amount of \$557.50. Terms: 30-day trade acceptance. Mr. Ryan accepted the trade acceptance and returned it to Mr. Frey. State the entries to be made by Mr. Ryan when he accepted the trade acceptance and by Mr. Frey when he received Mr. Ryan's acceptance.

14. Explain the use of a note register. To what group of books does the note register as described in this chapter belong?

15. If you referred to the *Notes Receivable* account in the ledger on Dec. 31 and saw that it had a balance of \$1200, where would you find the details of the items composing this amount?

16. If you referred to the *Notes Payable* account in the ledger on Dec. 31 and saw that it had a balance of \$850, where would you find the details of the items composing this amount?

Exercise 84. Written

REVIEW

From each of the following trial balances, prepare

- (a) the profit and loss statement;
- (b) the balance sheet;
- (c) the adjusting and closing journal entries.

1

Lee & Duncan

TRIAL BALANCE

Jan. 31, 19—

Cash	\$715	
Notes Receivable	950	
Trade Acceptances Receivable	810	
Accounts Receivable	1,445	
Merchandise Inventory, Jan. 1	4,528	
Furniture and Furnishings	1,320	
Fuel Inventory	130	
Office Supplies Inventory	105	
Notes Payable		\$600
Trade Acceptances Payable		450
Accounts Payable		465
W. J. Lee, Investment		3,600
W. J. Lee, Drawing		75
H. A. Duncan, Investment		3,600
H. A. Duncan, Drawing	110	
Merchandise Sales		7,259
Sales Returns and Allowances	42	
Merchandise Discount on Purchases		89
Interest Income		47
Merchandise Purchases	5,272	
Purchases Returns and Allowances		63
Freight and Cartage In	41	
Rent Expense	200	
Salaries	370	
Freight Out	68	
Merchandise Discount on Sales	102	
Interest Expense	38	
Collection and Exchange	2	
	<u>\$16,248</u>	<u>\$16,248</u>
Merchandise Inventory, Jan. 31	\$4,025	
Fuel Inventory	60	
Office Supplies Inventory	75	

2

Hill & Reed

TRIAL BALANCE

April 30, 19—

Cash	\$886	
Notes Receivable	650	
Trade Acceptances Receivable	800	
Accounts Receivable	1,177	
Merchandise Inventory, April 1	3,421	
Furniture and Furnishings	1,000	
Auto Truck	950	
Fuel Inventory	115	
Office Supplies Inventory	75	
Notes Payable		\$480
Trade Acceptances Payable		320
Accounts Payable		775
C. N. Hill, Investment		3,500
C. N. Hill, Drawing	195	
F. O. Reed, Investment		4,500
F. O. Reed, Drawing	120	
Merchandise Sales		4,485
Sales Returns and Allowances	90	
Merchandise Discount on Purchases		55
Interest Income		26
Merchandise Purchases	4,310	
Purchases Returns and Allowances		70
Freight and Cartage In	30	
Rent Expense	90	
Salaries	150	
Delivery Expense	45	
Freight Out	25	
Merchandise Discount on Sales	63	
Interest Expense	14	
Collection and Exchange	5	
	<u>\$14,211</u>	<u>\$14,211</u>
Merchandise Inventory, April 30	\$3,589	
Fuel Inventory	95	
Office Supplies Inventory	45	

CHAPTER XXII

THE DISCOUNT AND RENEWAL OF NOTES

Borrowing Money from Banks. Commercial banks aid in the financing of business by lending money to a business directly on the promissory notes of its proprietors or by discounting the notes, drafts, or acceptances received from customers.

The notes payable of a business, on which money is lent by banks, are usually for a specified time, such as 30, 60, or 90 da.

Notes may be payable "on demand," that is, on the request of the bank, but the use of such notes is decreasing since Federal Reserve banks will not lend money on demand notes and some other banks refuse to accept them.

The note shown below illustrates a time note:

The image shows a sample time note on a light blue background. The note is enclosed in a black rectangular border. The text is as follows: At the top left, the amount "\$500.00" is handwritten. To the right, "BUFFALO, N.Y." is printed, followed by "August 22, 19" handwritten. Below the amount, "Sixty days" is handwritten. To the right of this, "AFTER DATE" is printed, followed by a handwritten "I" and "PROMISE TO PAY TO". Below this, "THE ORDER OF" is printed, followed by "Buffalo City Bank" handwritten. Below that, "Five hundred" is handwritten, followed by "no. 100" in small print and "DOLLARS" printed. Below this, "AT" is printed, followed by "Buffalo City Bank" handwritten. Below that, "VALUE RECEIVED" is printed. At the bottom left, "No. 20" is handwritten, followed by "DUE" printed, then "October 21, 19" handwritten. To the right of this, "William West" is handwritten.

A TIME NOTE

When money is borrowed from a bank on a time note, the bank frequently deducts the interest from the face of the note at the time the loan is made. The borrower, therefore, receives only the proceeds, the face of the note less the interest on the face for the period of the loan.

Bank Discount. Interest deducted by the bank at the time a loan is made is called *bank discount*, the amount of which is recorded by the borrower in the *Interest Expense* account.

To illustrate by the note shown above, William West borrows \$500 from the Buffalo City Bank for 60 da. The bank deducts the interest

on \$500 at 6% for 60 da., \$5, in advance, and Mr. West receives the proceeds, \$495, from the bank.

In recording the above transaction, *Cash* is debited for \$495, *Interest Expense* is debited for \$5, and *Notes Payable* is credited for \$500, the face value of the note.

The following entry may be made in the general journal:

✓	Cash	22	495	—		
	Interest Expense		5	—		
	Notes Payable				500	—
	Discounted our 60-day note, dated 8/22, at 6%, at City Bank.					

An entry in the cash journal to record the actual cash received may be made as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
Aug. 22	✓	Notes Payable	Proceeds of discounted note, see G. J., p. 243	495 —		495 —

Note that the credit to *Notes Payable* is checked in the cash journal, so that it is not posted, and that the debit to *Cash* is checked in the general journal, so that it is not posted. The amount of cash received is included in the amount which is posted at the end of the month to the debit of *Cash*, and the credit to *Notes Payable* is posted from the general journal for the face value of the note.

On demand notes the borrower receives the face value of the note, and interest is paid to the bank at the time the note is paid.

Instead of recording this transaction in the general journal and in the cash journal, it may be recorded only in the cash journal, and an entry would be made on the debit side of the cash journal for the face of the note, as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
Aug. 22		Notes Payable	Discounted our 60-day note, dated 8/22, at 6%, at City Bank	500 —		500 —

An entry would be made on the credit side of the cash journal to record the discount of \$5, as follows:

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS
Aug.	22		Interest Expense	Discount on note	5	—		5 —

It is recommended that the first method of recording such transactions be followed; that is, that a general-journal entry be made for the transaction and that only the actual amount of cash received be entered in the cash journal.

When payment is made at maturity for the above note of \$500 discounted at the City Bank, William West would pay them \$500 and would make the following entry in his cash journal:

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS
Oct.	21		Notes Payable	60-day note due the City Bank	500	—		500 —

Note that the debit to *Notes Payable* is for the face of the note, the interest having been deducted when the loan was made.

Exercise 85. Written

DISCOUNTING NOTES PAYABLE

Record the following transactions in a general journal and a three-column cash journal:

Sept. 6. John E. Barlow borrows from the First City Bank, \$500, on a 30-day note dated Sept. 6. The bank discounts the note at 6%.

The notes may be written out on plain paper if the instructor desires.

25. Borrow from the Second City Bank, \$1000, on a 30-day note dated Sept. 25. The bank discounts the note at 7%.

Oct. 6. Pay the note for \$500 given to First City Bank on Sept. 6.

8. Borrow from the First City Bank, \$1200, on a 30-day note dated Oct. 8. The bank discounts the note at 6%.

18. Borrow from the First City Bank, \$800, on a 45-day note dated Oct. 18. The bank discounts the note at 6%.

25. Pay the note for \$1000 given to the Second City Bank on Sept. 25.

Nov. 7. Pay the note for \$1200 given to the First City Bank on Oct. 8.

Dec. 2. Pay the note for \$800 given to the First City Bank on Oct. 18.

Borrowing Money on Customer's Notes and Acceptances. Frequently the proprietor of a business does not wish to wait until maturity for the payment of notes and acceptances received from customers. Very often cash is needed for the payment of bills, and rather than give his own note to the bank the proprietor will offer the notes or acceptances of others to the bank for discount. If the bank is willing to advance money on the notes or acceptances, the proprietor indorses them and sells them to the bank. In return for advancing the money, the bank deducts the discount (interest) for the number of days between the date of discount and the date of maturity and pays the proceeds to the proprietor of the business.

This process is called *discounting* a note, and the time for which the discount is charged is known as the *term of discount*. It is the general custom to count the exact number of days in the term of discount, excluding the day of discount but including the day of maturity.

In computing the bank discount on a non-interest-bearing note, the date of maturity must be determined first, then the term of discount; then the bank discount is computed for this term on the face of the note.

To illustrate, on May 5 A. K. Jordan offers the following note to the Federal City Bank for discount, and they agree to discount the note at 6%:

\$460 ⁵⁰ / ₁₀₀	AKRON, OHIO	May 7	19 --
Thirty days		AFTER DATE	I PROMISE TO PAY TO
THE ORDER OF		A. K. Jordan	
Four hundred sixty		50	DOLLARS
AT my office			
VALUE RECEIVED			
No. 16	DUE June 1, 19 --	Fred L. Sims	

A NOTE PAYABLE AFTER DATE

The date of maturity of the note is June 1. The date of discount, that is, the date the note is presented to the bank for discount, is May 5. The term of discount is from May 5 to June 1, or 27 da. Interest on \$460.50 for 27 da. at 6% amounts to \$2.07, and the bank therefore pays Mr. Jordan the difference between the face of the note, \$460.50, and the interest, \$2.07, or \$458.43. This amount, \$458.43, the balance

obtained by deducting the interest from the face of the note, is called the *proceeds* of the note.

To record this transaction, it must be realized that Mr. Jordan receives \$458.43, pays interest for 27 da., \$2.07, and parts with a note receivable of a face value of \$460.50.

The following entry may be made in the general journal:

✓	Cash	5	458	43		
	Interest Expense		2	07		
	Notes Receivable				460	50
	Discounted the 30-day note of Fred L. Sims, dated May 2, at 6%, at Federal City Bank.					

The cash received may be recorded in the cash journal, as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
May 5	✓	Notes Receivable	Proceeds of discounted note, see G.J., p. 246	458 43		458 43

Note that the credit to *Notes Receivable* is checked in the cash journal, so that it is not posted; and that the debit to *Cash* is checked in the general journal, so that it is not posted.

At maturity Mr. Sims would pay the Federal City Bank the face of the note.

Exercise 86. Written

DISCOUNTING NOTES RECEIVABLE, AND ACCEPTANCES RECEIVABLE

Record the following transactions in a general journal and in a three-column cash journal:

Jan. 2, 19—. Student, Proprietor, receives from William Snell his 30-day note dated Jan. 2, for \$400, in full of account.

3. Discount at 6% William Snell's note at the Central City Bank.

4. Draw a 30-day trade acceptance on Edmund Hickey, for \$360, and send it to him for acceptance.

5. Receive from John Fisher his 30-day note dated Jan. 4, for \$990, in full of account.

6. Receive from Edmund Hickey his 30-day trade acceptance, properly accepted.

8. Discount at 6% Edmund Hickey's trade acceptance, at the First City Bank.

10. Discount at 6%, at the Central City Bank, John Fisher's 30-day note dated Jan. 4.

11. Draw a 10-day trade acceptance on Samuel Brown & Co., for goods sold to them today, \$630.

12. Receive from A. L. Small his 60-day note, dated Jan. 11, for \$600, to apply on account.

15. Receive from Samuel Brown & Co. their 10-day trade acceptance, properly accepted.

17. Discount at 6%, at the First City Bank, Samuel Brown & Co.'s 10-day trade acceptance.

20. Discount at 7%, at the Second City Bank, A. L. Small's 60-day note dated Jan. 11.

Discounting Interest-Bearing Notes. Very few interest-bearing notes are offered for discount. When they are, the bank deducts, as discount, the interest on the *value* of the note at maturity; that is, on the face plus the interest due at maturity.

To illustrate, on July 22 John D. Barnes offers for discount at the City Bank the 60-day note of James K. Black, for \$1800, dated July 12 and bearing interest at 6%. The bank discounts the note at 6%.

The interest due at the date of maturity is \$18. The value of the note at maturity is \$1800 + \$18, or \$1818.

The term of discount is from July 22 to Sept. 10, or 50 days.

The bank discount (interest) on \$1818 for 50 da. at 6% is \$15.15.

The proceeds of the note, which are given Mr. Barnes by the bank, are therefore \$1802.85 (\$1818 - \$15.15).

The following entry may be made in the general journal:

✓	Cash	1802	85		
	Interest Expense	15	15		
	Interest Income			18	—
	Notes Receivable			1800	—
	Discounted at 6%, at the City Bank, the 60-day note of James K. Black, with interest at 6%, dated July 12.				

The cash received may be recorded in the cash journal, as follows:

DATE		F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS	
July	22	✓	Notes Receivable	Proceeds of discounted note, see G. J., p. 247	1802	85		1802	85

Exercise 87. Written

DISCOUNTING NOTES, DRAFTS, AND ACCEPTANCES

John K. Borden owned the following notes, drafts, and acceptances on Jan. 2, 19—:

MAKER-DRAWEE	DATE OF PAPER	TIME	INTEREST RATE	AMOUNT	DESCRIPTION
A. R. Dore	11/2	90 da.	—	\$1800	Two-party draft
D. L. Simms & Co.	11/13	60 da.	—	2000	Trade acceptance
F. K. Fox	11/25	2 mo.	—	1500	Note
John Roe	12/12	90 da.	—	800	Trade acceptance
A. D. Stone	12/14	60 da.	—	980	Note
D. B. Kelly	12/23	30 da.	6 %	950	Note

The above list of notes, drafts, and acceptances furnishes the details of the notes paid in the following exercise:

Enter the following transactions of John K. Borden in the general journal and the cash journal for the month of January:

Jan. 3, 19—. Discount at 6%, at the Main Street Bank, D. B. Kelly's 30-day interest-bearing note for \$950, dated Dec. 23.

5. Discount at 6%, at the Main Street Bank, F. K. Fox's 2-month note dated Nov. 25.

6. Discount at $6\frac{1}{2}$ %, at the First National Bank, the 60-day trade acceptance of D. L. Simms & Co., dated Nov. 13.

10. Discount at 6%, at the Main Street Bank, the 90-day draft of A. R. Dore, dated Nov. 2.

23. Discount at $6\frac{1}{2}$ %, at the First National Bank, the 90-day trade acceptance of John Roe, dated Dec. 12.

27. Discount at 6%, at the Main Street Bank, A. D. Stone's 60-day note for \$980, dated Dec. 14.

31. Discount at 7%, at the Second National Bank, J. K. Borden's 60-day note for \$2000, dated today.

Renewal of Notes. It frequently happens that notes cannot be paid at maturity, owing to lack of funds, and the maker requests the holder to renew the note. If the holder agrees, the maker may pay the interest on the original note in cash (if the interest was not deducted in advance) and issue a new note for the original one.

If interest on the original note had been deducted in advance, it obviously would not be paid again.

To illustrate, assume that T. M. Hunter holds your 60-day note for \$100, due March 27, with interest at 6 %. You write him on March 24, stating that you will be unable to pay this note and asking if he will be

willing to renew the note for another 60-day period. Mr. Hunter agrees, and therefore you send him your check for \$1, in payment of interest on the original note, and a renewal note for \$100.

The entries to be made on your books are as follows:

1. In the cash journal an entry would be made debiting *Interest Expense* for \$1.

2. In the general journal the following entry would be made:

	26			
Notes Payable		100	—	
Notes Payable				100 —
60-day note, dated March 27, with				
interest at 6%, given T. M. Hunter				
in renewal of note given Jan. 26.				

The entries to be made on Mr. Hunter's books are as follows:

1. In the cash journal an entry would be made crediting *Interest Income* for \$1.

2. In the general journal the following entry would be made:

	27			
Notes Receivable		100	—	
Notes Receivable				100 —
60-day note of Student, dated				
March 27, received in renewal of				
note due today.				

After the above entries have been posted, the books would show that the original note had been canceled and returned to you by Mr. Hunter and that the renewal note had been entered as an independent transaction.

If the interest on the original note had been paid in advance, no entries would be made at the time of renewal for the interest paid or received.

If the interest on the new note is paid in advance, the additional entries to be made when the new note is given by you and received by Mr. Hunter are as follows:

On your books a cash-journal entry debiting *Interest Expense* for \$1.

On Mr. Hunter's books a cash-journal entry crediting *Interest Income* for \$1.

Some bookkeepers would mark the original note as "Renewed March 27, 19—," and would make no entry or additional record for the new note. This practice is objectionable because the record of one note of a given date thus becomes the record of another note of a different date.

The student should always follow the excellent practice of having the note register correctly record on each day the complete data for all notes, drafts, and acceptances receivable and payable. These include renewed notes as well as others, so that accurate data regarding all such items are readily available.

Exercise 88. Written

RENEWAL OF NOTES

Make the entries in the general journal and in the cash journal of Chas. B. Sherman for the following transactions:

May 2, 19—. Mr. Sherman's 30-day note for \$1000, discounted at 6% on April 2 at the Citizens' Bank, is due today. The bank agrees to renew the note for 30 da., discounted at 6%. Make the entries for the new note.

5. Receive from Lane & Co. a note for \$500, dated today, due in 30 da., with interest at 6%, in renewal of their 30-day note for \$500, due today. They also send a check in payment of the interest on the old note.

9. Renew the 60-day non-interest-bearing note of William Marsh for \$450, due today. Mr. Marsh gives a new note dated May 9, due in 60 da., for \$450.

11. Send Tenney & Co. a note for \$600, dated today, due in 30 da., with interest at 6%, in renewal of our note dated April 11, due today. Send them a check in payment of the interest on the old note.

16. A. D. Main has agreed to renew our 60-day note for \$550, dated March 17, with interest at 6%. Send him a new note for \$550, dated today, due in 60 da., with interest at 6%, and a check in payment of the interest on the old note.

17. Receive of W. M. Fair a note for \$375, dated May 17, due in 30 da., with interest at 6%, in renewal of their 30-day note for \$375, due today. They inclose a check in payment of the interest on the old note for 30 da. at 6%.

Joint Note. It sometimes happens that two or more persons borrow money together for a common purpose. In such a case they might both be makers of a note. If the beginning of the body of such a note read, for illustration, *Sixty days after date we promise to pay*, and if it were signed by G. L. Sherman and A. B. Connor, it would be a *joint* note; both of the signers would be responsible jointly, not individually, for payment.

Joint and Several Note. If the beginning of the body of the note read, for illustration, *Sixty days after date we jointly and severally promise to pay*, and if it were signed by G. L. Sherman and A. B. Connor, it would be a *joint and several* note; each party, individually, would be responsible for its payment, or both parties, jointly, would be responsible.

In a partnership each member of the firm may sign the notes issued by the firm, thus making the notes of a partnership joint notes. This practice is not common in all states.

The difference between a joint note and a joint and several note is that in a joint note suit for payment must be made against the makers jointly, whereas in a joint and

several note suit for payment may be brought against each of the makers individually or they may be sued jointly. In many of the states this distinction has now been abolished by law.

Exercise 89. Oral

TOPICS FOR CLASS DISCUSSION

1. From whom do business men usually borrow money? For what periods?
2. What is meant by *discounting a note*? Under what account is the charge for discount included?
3. Trace and explain the entries to be made in discounting your own note for \$300 at a bank, for 60 da., at 6%.
4. How may customers' notes and acceptances be discounted at a bank? Trace and explain the entries to be made in connection thereto.
5. If a note is interest bearing, upon what amount is the discount calculated?
6. Trace and explain the entries connected with the renewal of a note where the interest was paid in advance, both on the original note and on the renewal.

CHAPTER XXIII

UNEXPIRED INSURANCE — SUNDRY GENERAL EXPENSE

Unexpired Insurance and Insurance Accounts. Insurance against loss of property or damage to it by fire is called *fire insurance*. Such protection also covers any damage incidental to a fire, such as the damage done by water used in putting out the fire or other damage caused by the firemen's efforts to subdue the fire, and frequently covers loss caused by lightning.

The *insurer*, who is also called the *underwriter*, is the one who agrees to pay the loss in case of fire, and is generally a company organized to transact such business. The *insured* is the person with whom the agreement is made and to whom payment for the loss is to be made. In consideration of the protection given by the company the insured agrees to pay a fixed sum which is called the *premium*. All the details covering the conditions under which the property is insured — the amount that will be paid in case of total loss, the methods of adjusting and paying claims for partial losses, the details in connection with the payment of the premium, and so on — are included in a written agreement or contract, which is called the *policy*.

The above terms apply to any type of insurance.

Fire-insurance companies quote their rates for insurance as so many cents (or dollars and cents) for each \$100 of insurance for the period of 1 yr. The annual premium is then the product of this rate and the number of hundred dollars' worth of insurance which is issued.

Term Rates. Insurance policies are often made for a longer period than 1 yr. Where insurance is carried in this way, lower rates are given, as shown in the following table:

FOR	RATE
2 yr.	$1\frac{3}{4}$ times the annual rate
3 yr.	$2\frac{1}{2}$ times the annual rate
4 yr.	$3\frac{1}{4}$ times the annual rate
5 yr.	4 times the annual rate

On account of these lower rates many business men buy fire-insurance policies for a longer period than 1 yr., and therefore the charge for such insurance protection should be distributed over the periods which are protected. Accordingly, the cost of the policy, which is paid in advance, is debited to an *Unexpired Insurance* account, and as the

Insurance	24	—	24	—
Unexpired Insurance				
Year's share of 3-year premium on fire-insurance policy.				

Insurance	2	—		
Unexpired Insurance			2	—
Month's share of 3-year premium on fire-insurance policy.				

Sundry General Expense. Separate expense accounts should be kept for all items which occur frequently in business, or for those expenses occurring less frequently but for which it is advisable to know the exact amount. Thus, an account is always kept with *Salaries*, for wages are usually paid weekly, bi-weekly, or monthly, and an account is also kept with *Property Taxes*, which are generally paid but once a

- ## INSURANCE REGISTER

MONTHLY CHARGES												BALANCE
JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	
350	350	350	350	350	350	350	350	350	350	350	350	42 ~
		10 ~	10 ~	10 ~	10 ~	10 ~	10 ~	10 ~	10 ~	10 ~	10 ~	260 ~
					2	4	4	4	4	4	4	22 ~

AN INSURANCE REGISTER

- Make the adjusting and closing entries which would be made on June 30, July 31, and Aug. 31 to close the accounts into *Profit and Loss*. Post these entries to the ledger.

Exercise 91. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *fire insurance, insurer, insured, premium, policy.*
2. What is meant by the expression *term rates*?
3. If on Jan. 2, 19—, a merchant took a 3-year fire-insurance policy, for \$5000, on his merchandise and paid a premium of \$72 on it, what account would be debited?

What would be the adjusting general-journal entry to be made at the end of the first month?

4. Into what account is the *Insurance* account closed?
5. Describe the use and form of an insurance register.
6. Why is it necessary to keep separate accounts for the more important kinds of expense items?
7. What items are debited to the *Sundry General Expense* account? Into what account is it closed? Why is it particularly necessary to have a clear, definite explanation for a *Sundry General Expense* entry?

CHAPTER XXIV

SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS

Object of Set. The object of this set is to give the student, acting as bookkeeper, practice in the application of principles as to the use of both new accounts and books of entry. The wholesale electrical-appliance business is used as a basis for the work, and it is assumed to be owned and operated by a partnership.

If desired, business forms may be used. All business forms handled are either *incoming papers* or *outgoing papers*. Incoming papers are those received from others; outgoing papers are those given to others. Incoming papers may be received and recorded by the student, and he may issue and record all outgoing papers.

Books Used. The books which are to be used are the general journal, cash journal, purchases journal, sales journal, note register, and ledger. The ledger is in Blank B; all other books are in Blank A.

The use of the note register is explained and illustrated on pages 234-236.

Ledger. Open the following accounts in Blank B in the order given, placing three accounts on a page:

Cash	Unexpired Insurance
Notes Receivable	Office Supplies Inventory
Trade Acceptances Receivable	Notes Payable
Accounts Receivable ¹	Trade Acceptances Payable
H. L. Brown & Co., Painesville, Ohio	Accounts Payable ²
B. A. Frank & Co., Elyria, Ohio	Briggs Electric Co., Vermilion, Ohio
William Frost & Co., Lorain, Ohio	Brite-Lite Co., Lorain, Ohio
P. L. Hood & Co., 200 East Ninth St., Cleveland, Ohio	Electrical Manufacturing Co., Troy, N. Y.
Jones & Jones, Hudson, Ohio	Fitchburg Electric Co., Fitchburg, Mass.
L. A. Simms & Co., Elyria, Ohio	Lynd Supply House, Buffalo, N. Y.
Springfield Appliance Co., Springfield, Mass.	National Manufacturing Co., Troy, N. Y.
Warren Bros., 67 East Fortieth St., Cleveland, Ohio	J. L. Sears Co., Buffalo, N. Y.
Merchandise Inventory	Joseph H. Bates, Investment
Furniture and Furnishings	
Auto Truck	

¹ Do not write *Accounts Receivable* in the ledger.

² Do not write *Accounts Payable* in the ledger.

Joseph H. Bates, Drawing	Freight In
John K. Bacon, Investment	Rent Expense
John K. Bacon, Drawing	Salaries
Profit and Loss	Delivery Expense
Merchandise Sales	Freight Out
Sales Returns and Allowances	Insurance
(Debit account)	Office Supplies
Merchandise Discount on Purchases	Sundry General Expense
Interest Income	Merchandise Discount on Sales
Merchandise Purchases	Interest Expense
Purchases Returns and Allowances	Collection and Exchange
(Credit account)	

Incoming Business Forms for June. All incoming business forms for June are indicated below for the following reasons:

1. The text is complete in itself and, if so desired, may be used without the incoming business forms.

2. Since the text is complete within itself, all material is immediately at hand for reference, for class drills and discussion, for reviews during the progress of the set or when the set is finished.

A tablet, separate from the text, containing all the incoming business forms referred to in the following list, is available for use with this set when business practice is used.

The set may therefore be written in any of the following ways:

1. The transactions may be recorded without the use of business forms.

2. The transactions may be recorded, and business forms may be used.

3. The general business routine connected with the business, such as the handling of cash, the proving of cash at the close of each day, etc., may be transacted in addition to the recording of the transactions and the use of the business forms.

In the box of business forms there are blank invoices, checks, notes, etc. sufficient in number to make all necessary outgoing papers. In addition there are filing envelopes in which the various business papers may be kept. Instructions for the filing of each business paper are given but once, it being assumed that the student will thereafter know how to dispose of each paper properly. When the entry has been made, the student should file the business form in the proper envelope. In this set the purchase orders are not to be made out by the student.

Business currency may be secured for use with these sets if desired; its use is optional.

In all the following invoices Bates & Bacon, as proprietors, are represented as the purchaser.

SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS 259

Form 1. Check of John K. Bacon, City, for \$3500, in favor of Bates & Bacon, for his investment in the firm, June 1.

Form 2. Bill of West & Co., City, for stationery and office supplies, \$76, June 1. Terms: cash.

Form 3. Bill of the Voss Furniture Co., City, for office and store furniture, \$610, June 1. Terms: cash.

Form 4. Invoice of Electrical Manufacturing Co., Troy, N. Y., June 2. Terms: 3/5, n/30, f.o.b. Troy.

12 9-inch Fans	@ \$6
12 12-inch Fans	@ 9
12 18-inch Fans	@ 12
6 AA Coffee Percolators	@ 5
6 BB Coffee Percolators	@ 9
12 C Coffee Percolators	@ 15

Form 5. Note of H. L. Brown & Co., Painesville, Ohio, for \$220.50, in your favor, due in 15 da., with interest at 6 %, dated June 3, payable at 812 Superior Ave., June 5.

Form 6. Invoice of Brite-Lite Co., Lorain, Ohio, June 4. Terms: 3/5, n/30, f.o.b. Cleveland.

20 #87A Flashlights	@ \$0.40
20 #92AA Flashlights	@ .90

Form 7. Credit memorandum from Electrical Manufacturing Co., for 2 defective 18-inch fans invoiced to us on June 2, at \$12, June 5.

Form 8. Check of William Frost & Co., Lorain, Ohio, for \$702.76, in your favor, for invoice of June 2, less 3 %, June 5.

Form 9. Invoice of Briggs Electric Co., Vermilion, Ohio, June 5. Terms: note due in 20 da., with interest at 6 %, f.o.b. Cleveland.

24 Curling Irons	@ \$5
12 Grills	@ 10

Form 10. Invoice of National Manufacturing Co., Troy, N. Y., June 6. Terms: 3 % cash, f.o.b. Cleveland.

24 Toasters	@ \$3
24 Waffle Irons	@ 7

Form 11. Check of Jones & Jones, Hudson, Ohio, for \$299.25, in your favor, for invoice of June 9, June 10.

Form 12. Check of Warren Bros., City, for \$87.30, in your favor, for invoice of June 9, less 3 %, June 11.

Form 13. Invoice of Lynd Supply House, Buffalo, N. Y., June 9. Terms: cash, f.o.b. Cleveland.

12 #8762 Lamps	@ \$3
12 #8764 Lamps	@ 8
12 #8324 Lamps	@ 4
6 #8792 Lamps	@ 12

Form 14. Invoice of J. L. Sears Co., Buffalo, N. Y., June 12. Terms: 10-day trade acceptance dated June 12, f.o.b. Cleveland.

2 Ironing Machines, Electric @ \$150
2 Ironing Machines, Gas @ 100

Form 15. Trade acceptance from J. L. Sears Co., dated June 12, for \$500, for invoice of June 12.

Form 16. Check of B. A. Frank & Co., Elyria, Ohio, for \$218.25, in your favor, for invoice of June 16, less 3 %, June 18.

Form 17. Check of William Frost & Co., Lorain, Ohio, for \$404.49, in your favor, for invoice of June 13, less 3 %, June 17.

Form 18. Note of H. L. Brown & Co., Painesville, Ohio, for \$220.50, in your favor, due in 20 da., with interest at 6 %, dated June 18, payable at 812 Superior Ave., June 18.

Form 19. Check of H. L. Brown & Co., Painesville, Ohio, for 55 cents only, in your favor, for interest on their note due June 18, June 18.

Form 20. Invoice of Electrical Manufacturing Co., Troy, N. Y., June 16. Terms: 3/5, n/30, f.o.b. Troy.

6 Dishwashers @ \$15
4 #1 Ranges @ 60
2 #2 Ranges @ 100
3 Refrigerators @ 75

Form 21. Invoice of National Manufacturing Co., Troy, N. Y., June 18. Terms: 3 % cash, f.o.b. Cleveland.

6 Washing Machines @ \$80

Form 22. Check of Jones & Jones, Hudson, Ohio, for \$153, in your favor, for invoice of June 24, June 25.

Form 23. Check of H. L. Brown & Co., Painesville, Ohio, for \$120, in your favor, for invoice of June 23, June 27.

Form 24. Bill of Main Street Garage, City, for gasoline, oil, and storage of auto, \$54.20, June 30.

Form 25. Check of L. A. Simms & Co., Elyria, Ohio, for \$342.15, in your favor, for their trade acceptance due June 30, June 29.

Form 26. Invoice of Electrical Manufacturing Co., Troy, N. Y., June 27. Terms: 3/5, n/30, f.o.b. Troy.

6 Chafing Dishes @ \$7.50
12 BB Coffee Percolators @ 9.00
12 C Coffee Percolators @ 15.00
12 9-inch Fans @ 6.00

A summary of the above incoming forms shows that they include checks, bills, invoices, a credit memorandum, and a trade acceptance — all forms in general use in the modern business office. Students are urged to thoroughly understand each of these forms.

MEMORANDA OF TRANSACTIONS FOR JUNE

June 1, 19—. Joseph H. Bates and John K. Bacon form the partnership of Bates & Bacon, dealing in electrical appliances at 812 Superior Ave., Cleveland, Ohio.

The detailed partnership agreement appears on pages 214 and 215. It should be studied very carefully.

Joseph H. Bates invests the following: merchandise, \$3000; an auto truck valued at \$1000.

John K. Bacon invests cash, \$3500.

The general journal for the new business should be opened as follows:

June 1, 19—

Joseph H. Bates and John K. Bacon this day form the partnership of Bates & Bacon, dealing in electrical appliances at 812 Superior Ave., Cleveland, Ohio. The partnership agreement, giving details of each partner's investment, salary, division of profit and loss, etc. is on file.

Joseph H. Bates is to invest merchandise, \$3000; an auto truck valued at \$1000.

John K. Bacon is to invest cash, \$3500.

Merchandise Inventory	\$3000	
Auto Truck	1000	
Joseph H. Bates, Investment		\$4000
To credit the <i>Joseph H. Bates, Investment</i> , account with the assets invested in the business on June 1, 19—.		

The check of John K. Bacon, for \$3500, drawn on the Cleveland National Bank is received, Form 1.

Credit the *Investment* account of John K. Bacon in the cash journal for the amount of cash invested by him.

A checking account is opened with the Traders Bank under the name of Bates & Bacon. All checks will be signed "Bates & Bacon, by Student."

Deposit \$3400, thus receiving \$100 in cash from the bank to use in making small disbursements. The person receiving the money for the bank will record the deposit in a bank pass book. Keep the pass book in your *Bank* envelope.

Enter the amount of the deposit on the check record.

If business currency is used, receive the currency from the instructor and place it in the *Business Cash* envelope.

If business practice is not used, all directions and references to various business forms may be disregarded.

The following is an itemized list of the stock invested by Joseph H. Bates:

	COST	TOTAL
6 Chafing Dishes	@ \$7.50	\$45.00
12 AA Coffee Percolators	@ 5.00	60.00
8 BB Coffee Percolators	@ 9.00	72.00
30 6-foot Silk Cords	@ .60	18.00
25 12-foot Silk Cords	@ .80	20.00
2 Dishwashers	@ 15.00	30.00
9 Hair Driers	@ 10.00	90.00
1 Ice-Cream Freezer	@ 20.00	20.00
3 Immersion Heaters	@ 4.00	12.00
1 Ironing Machine, Electrically Heated	@ 150.00	150.00
1 Ironing Machine, Gas Heated	@ 100.00	100.00
12 3-pound Irons	@ 2.00	24.00
8 6-pound Irons	@ 4.50	36.00
12 #8762 Lamps	@ 3.00	36.00
3 #8324 Lamps	@ 4.00	12.00
4 #8764 Lamps	@ 8.00	32.00
10 #8792 Lamps	@ 12.00	120.00
12 Radiant Heaters	@ 7.00	84.00
3 #1 Ranges	@ 60.00	180.00
4 #2 Ranges	@ 100.00	400.00
2 Refrigerators	@ 75.00	150.00
3 #7693 Shades	@ 1.00	3.00
12 #7684 Shades	@ 6.00	72.00
6 #7800 Shades	@ 18.00	108.00
8 Utility Motors	@ 15.00	120.00
6 Vacuum Cleaners	@ 30.00	180.00
6 Vibrators	@ 10.00	60.00
6 Washing Machines	@ 80.00	480.00
568 100-220-Volt Lamps	@ .25	142.00
480 220-250-Volt Lamps	@ .30	144.00
		<u>\$3000.00</u>

1. Issue check No. 1 to William A. Riley in payment of rent for month of June, \$100.

The canceled check will act as a receipt. No formal receipt is required.

Write the check, make the entry in the check-record and record in the cash journal.

File the check in the *Outgoing Papers* envelope.

1. Pay the bill of West & Co., City, by check, for stationery and office supplies, \$76, Form 2.

File the bill in the *Receipts and Paid Items* envelope.

1. Pay the bill of the Voss Furniture Co., City, by check, for office and store furniture, \$610, Form 3.

2. Insure the merchandise and store equipment for 1 yr. Amount of policy, \$5000. Issue a check to the Mutual Fire Insurance Company, for \$81.25, in payment of premium on this policy for 1 yr., beginning June 1.

Why should this amount not be debited to *Insurance*?

2. Ship the following order to William Frost & Co., Lorain, Ohio. Terms: 3/5, n/30, f.o.b. Cleveland.

3 Radiant Heaters @ \$10.50	2 Vacuum Cleaners @ \$45.00
1 #1 Range @ 90.00	2 Utility Motors @ 22.50
1 #2 Range @ 150.00	3 #8762 Lamps @ 4.50
1 Refrigerator @ 112.50	3 #8324 Lamps @ 6.00
1 Washing Machine @ 120.00	3 #8764 Lamps @ 12.00
3 #8792 Lamps @ \$18.00	

Make out the invoice in duplicate. File the original in the *Outgoing Papers* envelope. File the duplicate in the *Duplicate Sales Invoices* envelope.

3. Mr. Bacon takes from the store for use in his home:

1 #1 Range @ \$60

Make the general-journal entry. As explained previously, merchandise taken from the store by the proprietor should be charged to him at cost price. Why?

3. Ship the following order to H. L. Brown & Co., Painesville, Ohio. Terms: 15-day note, with interest at 6%, f.o.b. Cleveland.

6 #7684 Shades @ \$9.00
 3 #7693 Shades @ 1.50
 6 #7800 Shades @ 27.00

4. Receive the invoice dated June 2 and goods ordered on purchase order No. 1 from the Electrical Manufacturing Co., Troy, N.Y., Form 4.

File the invoice in the *Invoices of Merchandise Purchased — Unpaid* envelope.

4. Pay D. L. Jones, agent, by check, for freight on above shipment, \$24.50.

4. Return to the Electrical Manufacturing Co. the following defective goods invoiced to us on June 2:

2 18-inch Fans @ \$12.00

4. William Frost & Co. return 2 #8792 Lamps invoiced to them on June 2.

Issue a credit memorandum for the returned lamps.

File the original in the *Outgoing Papers* envelope and file the duplicate in the *Duplicate Sales Invoices* envelope with the invoice to William Frost & Co.

5. Receive of H. L. Brown & Co. their note dated June 3, due in 15 da., with interest at 6%, in payment of our invoice of June 3, Form 5.

Record the data relative to the note in the note register and then file the note in the *Notes Receivable* envelope.

5. Pay cash, for postage, \$5.

6. Receive the invoice dated June 4 and goods ordered on purchase order No. 2 from the Brite-Lite Co., Lorain, Ohio, Form 6.

6. Receive of the Electrical Manufacturing Co. their credit memorandum, for 2 18-inch Fans returned to them on June 4, Form 7.

File the credit memorandum with the purchase invoice from the Electrical Manufacturing Co. in the *Invoices of Merchandise Purchased — Unpaid* envelope.

6. Receive of William Frost & Co. their check, in payment of the balance due on our invoice of June 2, Form 8.

6. Deposit the check of William Frost & Co.

6. Remit to the Electrical Manufacturing Co. a check, in payment of the balance due on their invoice of June 2.

The student is expected to determine whether or not the firm is entitled to a merchandise discount.

Remove the invoice from the *Invoices of Merchandise Purchased — Unpaid* envelope and file in the *Receipts and Paid Items* envelope.

Post all books of original entry to the ledger.

8. Receive the invoice dated June 5 and goods ordered on purchase order No. 3 from the Briggs Electric Co., Vermilion, Ohio, Form 9.

8. Deliver by truck to P. L. Hood & Co., 200 East Ninth St., City, the following goods ordered today. Terms: 3/5, n/30.

12 6-foot Silk Cords @ \$0.90	6 AA Coffee Percolators @ \$7.50
12 12-foot Silk Cords @ 1.20	6 BB Coffee Percolators @ 13.50
6 C Coffee Percolators @ \$22.50	

8. Send Briggs Electric Co. our note dated June 5, due in 20 da., with interest at 6%, in payment of their invoice of June 5.

Make out the note, record the data in the note register, and file in the *Outgoing Papers* envelope.

9. Deliver by truck to Warren Bros., 67 East Fortieth St., City, the following goods ordered today. Terms: 3% cash.

1 #1 Range @ \$90

9. Ship the following order to Jones & Jones, Hudson, Ohio. Terms: cash, f.o.b. Cleveland.

3 Chafing Dishes @ \$11.25	6 9-inch Fans @ \$9.00
1 Dishwasher @ 22.50	6 12-inch Fans @ 13.50
6 18-inch Fans @ \$18.00	

9. Receive the invoice dated June 6, and goods ordered on purchase order No. 4 from the National Manufacturing Co., Troy, N. Y., Form 10.

9. Remit to the Brite-Lite Co., Lorain, Ohio, a check, in payment of their invoice of June 4.

10. Receive from Jones & Jones their check, in payment of our invoice of June 9, Form 11.

10. Deposit the check of Jones & Jones.

10. Remit to the National Manufacturing Co., Troy, N. Y., a check, in payment of their invoice of June 6.

10. Ship the following order to L. A. Simms & Co., Elyria, Ohio. Terms: 20-day trade acceptance, f.o.b. Cleveland.

3 Chafing Dishes	@ \$11.25
2 AA Coffee Percolators	@ 7.50
6 BB Coffee Percolators	@ 13.50
6 C Coffee Percolators	@ 22.50
6 9-inch Fans	@ 9.00
12 #87A Flashlights	@ 0.60
12 #92AA Flashlights	@ 1.35

Fill out the trade acceptance form with the exception of the signature and file it in the *Outgoing Papers* envelope.

11. Receive of Warren Bros. their check, in payment of our invoice of June 9, Form 12.

11. Mr. Bates took from stock for private use:

1 Ironing Machine, Electric	@ \$150
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11. Receive the invoice dated June 9 and goods ordered on purchase order No. 5 from the Lynd Supply House, Buffalo, N. Y., Form 13.

11. Deposit the check of Warren Bros.

12. Remit to the Lynd Supply House a check, in payment of their invoice of June 9.

12. Receive of L. A. Simms & Co. their trade acceptance dated June 10, properly accepted, in payment of invoice of June 10.

The instructor should sign the trade acceptance for L. A. Simms & Co., and it should then be filed in the *Notes Receivable* envelope.

13. Ship the following order to William Frost & Co., Lorain, Ohio. Terms: 3/5, n/30, f.o.b. Cleveland.

5 Hair Driers	@ \$15.00	3 Utility Motors	@ \$22.50
3 Immersion Heaters	@ 6.00	2 Vacuum Cleaners	@ 45.00
6 3-pound Irons	@ 3.00	3 Vibrators	@ 15.00
6 6-pound Irons	@ 6.75	6 Waffle Irons	@ 10.50

13. Pay the salaries for two weeks by check:

Student, Bookkeeper, \$50	-	Jos. Lane, \$40
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Post all books of original entry to the ledger.

15. Receive the invoice dated June 12 and goods ordered on purchase order No. 6 from J. L. Sears Co., Buffalo, N. Y., Form 14.

15. Accept the trade acceptance received from J. L. Sears Co., for invoice of June 12, and return it to them, Form 15.

Record the data in the note register and file the acceptance in the *Outgoing Papers* envelope.

15. Pay John K. Bacon and Joseph H. Bates each \$75 by check, to apply on their monthly salary.

16. Ship the following order to B. A. Frank & Co., Elyria, Ohio. Terms: 3% cash, f.o.b. Elyria.

1 Ironing Machine, Electric @ \$225

16. Pay D. L. Jones, agent, by check, for freight on sale to B. A. Frank & Co., \$6.40.

17. Deliver by truck to P. L. Hood & Co., 200 East Ninth St., City, the following goods ordered today. Terms: 3/5, n/30.

6 #8762 Lamps @ \$4.50

6 #8764 Lamps @ 12.00

6 #8792 Lamps @ 18.00

6 #7684 Shades @ 9.00

18. Receive of B. A. Frank & Co. their check, in payment of our invoice of June 16, Form 16.

18. Receive of William Frost & Co. their check, in payment of our invoice of June 13, Form 17.

18. Receive a letter from H. L. Brown & Co. stating that they will be unable to pay their note due today for \$220.50, and that they wish to renew this note for 20 da. They assure you they will pay this renewal note when due. Accept their renewal note, Form 18, and make the proper entries.

Mark the old note, "Renewed by new note, June 18," make this same notation in the note register, and file in the *Outgoing Papers* envelope. File the renewal note in the *Notes Receivable* envelope after recording the necessary data in the note register.

18. H. L. Brown & Co. also inclose a check for 55¢ only, Form 19, in payment of interest on their note due today.

18. Deposit all checks on hand.

19. Receive the invoice dated June 16 and goods ordered on purchase order No. 7 from Electrical Manufacturing Co., Troy, N. Y., Form 20.

19. Pay D. L. Jones, agent, by check, for freight on above shipment, \$31.

19. Pay cash for postage, \$5.

SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS 267

20. Remit to J. L. Sears Co. a check, in payment of our trade acceptance dated June 12.

The instructor should mark this trade acceptance "Paid, June 20," and it should then be filed in the *Receipts and Paid Items* envelope.

20. Remit to the Electrical Manufacturing Co. a check, in payment of their invoice of June 16.

Post all books of original entry to the ledger.

22. Receive the invoice dated June 18 and goods ordered on purchase order No. 8 from the National Manufacturing Co., Troy, N. Y., Form 21.

22. Pay T. M. Harris cash, for cleaning the office, \$6.30.

23. Ship the following order to H. L. Brown & Co., Painesville, Ohio. Terms: cash, f.o.b. Cleveland.

12 Curling Irons @ \$7.50

2 Hair Driers @ \$15.00

23. Remit to the National Manufacturing Co. a check, in payment of their invoice of June 18.

24. Ship the following order to Jones & Jones, Hudson, Ohio. Terms: cash, f.o.b. Cleveland.

6 Grills @ \$15.00

1 Vibrator @ \$15.00

1 Waffle Iron @ 10.50

1 Hair Drier @ \$15.00

1 Utility Motor @ \$22.50

25. Remit to Briggs Electric Co. a check, in payment of our note dated June 5, with interest.

26. Receive of Jones & Jones their check, in payment of our invoice of June 24, Form 22.

26. Deposit the check of Jones & Jones.

27. Pay the salaries of the employees for two weeks by check.

Post all books of original entry to the ledger.

29. Receive of H. L. Brown & Co. their check, in payment of our invoice of June 23, Form 23.

29. Ship the following order to William Frost & Co., Lorain, Ohio. Terms: 3/5, n/30, f.o.b. Lorain.

2 Washing Machines @ \$120

29. Pay D. L. Jones, agent, by check, for freight on above sale, \$7.25.

30. Pay Main Street Garage by check, for their bill for gasoline, oil, and storage of auto, \$54.20, Form 24.

30. Receive of L. A. Simms & Co. a check, in payment of their trade acceptance dated June 10, Form 25.

Mark the trade acceptance "Paid, June 30" and file in the *Outgoing Papers* envelope.

30. Receive the invoice dated June 27 and goods ordered on purchase order No. 9 from the Electrical Manufacturing Co., Troy, N. Y., Form 26.

30. Pay D. L. Jones, agent, by check, for freight on above goods, \$11.

30. Pay John K. Bacon and Joseph H. Bates each \$75 by check, for balance of their monthly salary.

30. Deposit the checks of H. L. Brown & Co. and L. A. Simms & Co.

Complete the posting of all items in the books of original entry to the ledger.

Inventories. The inventories on hand on June 30 were

Merchandise	\$3999.60
Office Supplies	45.00

The insurance for the month was \$6.77.

The furniture and furnishings are valued at cost.

Closing the Set. Rule, foot, and post the totals of the purchases, sales, and cash journals.

Take a trial balance and record it in Blank A on the page indicated by the index.

Hand the books to the instructor for inspection and approval.

Prepare the profit and loss statement and the balance sheet, and record them in Blank A on the pages indicated by the index.

Make the necessary journal entries and postings to close the ledger.

Divide the net profit equally between the partners according to the agreement. Balance the partners' drawing accounts.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

Exercise 92. Written

MONTHLY BANK STATEMENT

1. Make out the monthly bank statement for the month of June, Set IV.

The following checks were unpaid at the end of the month:

CHECK NUMBER	DATE	AMOUNT
23	6/30	\$54.20
24	6/30	11.00
25	6/30	75.00
26	6/30	75.00

2. Prepare a reconciliation of the bank-statement balance and the check-book balance.

Exercise 93. Written

REVIEW

From each of the following trial balances, prepare

- (a) the profit and loss statement;
 (b) the balance sheet;
 (c) the adjusting and closing journal entries.

1

Dodge & Wheeler

TRIAL BALANCE

Aug. 31, 19—

Cash	\$984.20	
Notes Receivable	525.00	
Trade Acceptances Receivable	475.00	
Accounts Receivable	882.00	
Merchandise Inventory, Aug. 1	5,860.00	
Furniture and Furnishings	900.00	
Auto Truck	1,000.00	
Unexpired Insurance	84.00	
Office Supplies Inventory	75.00	
Notes Payable		\$500.00
Trade Acceptances Payable		350.00
Accounts Payable		422.00
G. L. Dodge, Investment		5,000.00
G. L. Dodge, Drawing	160.00	
R. P. Wheeler, Investment		5,000.00
R. P. Wheeler, Drawing	200.00	
Merchandise Sales		7,572.00
Sales Returns and Allowances	94.00	
Merchandise Discount on Purchases		57.00
Interest Income		2.75
Merchandise Purchases	6,947.00	
Purchases Returns and Allowances		131.00
Freight and Cartage In	54.00	
Rent Expense	150.00	
Salaries	400.00	
Delivery Expense	74.85	
Freight Out	70.00	
Sundry General Expense	23.00	
Merchandise Discount on Sales	72.00	
Interest Expense	3.50	
Collection and Exchange	1.20	
	<u>\$19,034.75</u>	<u>\$19,034.75</u>
Merchandise Inventory, Aug. 31	\$6,403.60	
Insurance for the month	7.00	
Office Supplies Inventory	51.00	

2

Hatch & Simpson

TRIAL BALANCE .

Sept. 30, 19—

Cash	\$1,384	
Notes Receivable	650	
Trade Acceptances Receivable	570	
Accounts Receivable	873	
Merchandise Inventory, Sept. 1	4,753	
Furniture and Furnishings	1,000	
Auto Truck	1,400	
Unexpired Insurance	172	
Fuel Inventory	160	
Office Supplies Inventory	90	
Trade Acceptances Payable		\$500
Accounts Payable		510
T. M. Hatch, Investment		6,000
T. M. Hatch, Drawing	185	
H. Simpson, Investment		6,000
H. Simpson, Drawing		70
Merchandise Sales		6,945
Sales Returns and Allowances	160	
Merchandise Discount on Purchases		62
Interest Income		3
Merchandise Purchases	7,930	
Purchases Returns and Allowances		145
Freight and Cartage In	68	
Rent Expense	150	
Salaries	475	
Delivery Expense	67	
Freight Out	42	
Sundry General Expense	28	
Merchandise Discount on Sales	77	
Collection and Exchange	1	
	<u>\$20,235</u>	<u>\$20,235</u>
Merchandise Inventory, Sept. 30	\$6,980	
Insurance for the month	12	
Fuel Inventory	145	
Office Supplies Inventory	60	

CHAPTER XXV

SET IV. WHOLESALE ELECTRICAL-APPLIANCE BUSINESS

(CONTINUED)

The memoranda following are a continuation of the memoranda for June. As such full and explicit instructions were given in June, much explanatory matter will be omitted in July.

Incoming Business Forms for July. The following list of forms is a continuation of the list for June:

Form 27. Check of William Frost & Co., Lorain, Ohio, for \$232.80, in your favor, for invoice of June 29, less 3 %, July 3.

Form 28. Bill of Ohio Bell Telephone Company, for telephone charges for the month of June, \$9, July 7.

Form 29. Invoice of Lynd Supply House, Buffalo, N. Y., July 3. Terms: cash, f. o. b. Cleveland.

12 Curling Irons	@ \$5.00
6 Hair Driers	@ 10.00
12 Immersion Heaters	@ 4.00
12 6-pound Irons	@ 4.50
4 Vibrators	@ 10.00

Form 30. Check of P. L. Hood & Co , City, for \$286.20, in your favor, for invoice of June 8, July 8.

Form 31. Check of H. L. Brown & Co., Painesville, Ohio, for \$221.24, in your favor, for their note and interest due today, July 8.

Form 32. Invoice of Briggs Electric Co., Vermilion, Ohio, July 7. Terms: cash, f. o. b. Cleveland.

6 Vacuum Cleaners	@ \$30
6 Utility Motors	@ 15

Form 33. Bill of Cleveland Electric Illuminating Company for light, for the month of June, \$6, July 10.

Form 34. Check of William Frost & Co., Lorain, Ohio, for \$245.89, in your favor, for balance due on invoice of July 6, less 3 %, July 11.

Form 35. Invoice of Fitchburg Electric Co., Fitchburg, Mass., July 10. Terms: draft payable 10 da. after date, f. o. b. Fitchburg.

24 #7693 Shades	@ \$1
12 #7684 Shades	@ 6
12 #7800 Shades	@ 18

Form 36. Credit memorandum from Briggs Electric Co. for 1 defective Utility Motor invoiced to us on July 7 @ \$15, July 13.

Form 37. Note of H. L. Brown & Co., Painesville, Ohio, for \$675, in your favor, due in 30 da., with interest at 6 %, dated July 10, payable at 812 Superior Ave., July 14.

Form 38. Invoice of National Manufacturing Co., Troy, N. Y., July 11. Terms: 3 % cash, f. o. b. Cleveland.

3 #1 Ranges @ \$60

3 #2 Ranges @ 100

Form 39. Draft drawn on us by Fitchburg Electric Co., Fitchburg, Mass., for \$312, dated July 10, payable 10 da. after date, July 15.

Form 40. Invoice of J. L. Sears Co., Buffalo, N. Y., July 14. Terms: 10-day trade acceptance, f. o. b. Cleveland.

6 Refrigerators @ \$75

Form 41. Trade acceptance from J. L. Sears Co. dated July 14, for \$450, for invoice of July 14.

Form 42. Check of Warren Bros., City, for \$93.70, in your favor, for invoice of July 15, less 3 %, July 20.

Form 43. Check of B. A. Frank & Co., Elyria, Ohio, for \$185.95, in your favor, for invoice of July 18, less 3 %, July 21.

Form 44. Bill of Sanborn Grocery Co., City, for groceries bought by Mr. Bacon, \$58.10, July 25.

Form 45. Invoice of National Manufacturing Co., Troy, N. Y., July 27. Terms: 3 % cash, f. o. b. Cleveland.

2 Ironing Machines, Electric @ \$150

2 Ironing Machines, Gas @ 100

Form 46. Bill of Main Street Garage, City, for gasoline, oil, and storage of auto, \$48.25, July 31.

MEMORANDA OF TRANSACTIONS FOR JULY

July 1, 19—. Issue a check to William A. Riley, in payment of rent for month of July, \$100.

1. Remit to the Electrical Manufacturing Co. a check, in payment of their invoice of June 27.

2. Ship the following order to Jones & Jones, Hudson, Ohio. Terms: 30-day trade acceptance, f. o. b. Hudson.

3 Washing Machines @ \$120.00

2 C Coffee Percolators @ 22.50

2 Vacuum Cleaners @ 45.00

6 Waffle Irons @ 10.50

Fill out the trade-acceptance form, with the exception of the signature, and file it in the *Outgoing Papers* envelope.

2. Pay D. L. Jones, agent, by check, for freight on above sale, \$22.50.

3. Ship the following order to the Springfield Appliance Co., Springfield, Mass. Terms: sight draft, f.o.b. Cleveland.

3	AA Coffee Percolators	@	\$7.50
6	Curling Irons	@	7.50
6	Dishwashers	@	22.50

Make out the sight draft and hand to the Traders Bank for collection. For purposes of class business practice, file this in the *Bank* envelope.

3. Receive of William Frost & Co. their check, in payment of our invoice of June 29, Form 27.

3. Deposit the check of William Frost & Co.

6. Receive of Jones & Jones the trade acceptance properly accepted, in payment of our invoice of July 2.

The instructor should sign the trade acceptance for Jones & Jones, and it should then be filed in the *Notes Receivable* envelope.

6. Ship the following order to William Frost & Co., Lorain, Ohio. Terms: 3/5, n/30, f.o.b. Cleveland.

1	Dishwasher	@	\$22.50
6	9-inch Fans	@	9.00
6	12-inch Fans	@	13.50
3	18-inch Fans	@	18.00
4	Grills	@	15.00

7. Pay cash, \$9, for the telephone bill for the month of June, Form 28.

7. Receive invoice dated July 3 and goods ordered on purchase order No. 10 from the Lynd Supply House, Buffalo, N.Y., Form 29.

8. The Traders Bank reports that it has collected the sight draft drawn on the Springfield Appliance Co. and has credited the amount, less 30¢ for collection, to your account.

Credit the Springfield Appliance Co. for the amount of the sight draft.

Enter the collection and exchange on the cash-paid side of the cash journal.

Enter the amount of the draft, less collection charges, on the check record.

Remove the draft from the *Bank* envelope and file in the *Outgoing Papers* envelope.

8. Receive of P. L. Hood & Co. their check, in payment of our invoice of June 8, Form 30.

8. Receive of H. L. Brown & Co. their check, in payment of their note dated June 18, with interest, Form 31.

8. Deposit all checks which have been received.

9. William Frost & Co. return 2 9-inch Fans invoiced to them on July 6.

Issue a credit memorandum.

9. Remit to the Lynd Supply House a check, in payment of their invoice of July 3.

10. Receive the invoice dated July 7 and goods ordered on purchase order No. 11 from Briggs Electric Co., Vermilion, Ohio, Form 32.

10. Ship the following order to H. L. Brown & Co., Painesville, Ohio. Terms: note due in 30 da., with interest at 6%, f.o.b. Cleveland.

1 Ironing Machine, Electric @	\$225
1 Ironing Machine, Gas @	150
2 #2 Ranges @	150

10. Pay cash, for light bill for June, \$6, Form 33.

11. Return to Briggs Electric Co. 1 Utility Motor invoiced to us on July 7.

11. Pay the salaries of the employees, for two weeks, by check.

11. Receive of William Frost & Co. their check, in payment of the balance due on invoice of July 6, less 3%, Form 34.

11. Deposit the check of William Frost & Co.

Post all books of original entry to the ledger.

13. Ship the following order to L. A. Simms & Co., Elyria, Ohio. Terms: 3/5, n/30, f.o.b. Cleveland.

10 BB Coffee Percolators @	\$13.50
12 Toasters @	4.50
2 Utility Motors @	22.50
4 Vacuum Cleaners @	45.00
4 Vibrators @	15.00
6 Waffle Irons @	10.50

13. Receive the invoice dated July 10 and goods ordered on purchase order No. 12 from the Fitchburg Electric Co., Fitchburg, Mass., Form 35.

13. Pay D. L. Jones, agent, by check, for freight on above goods, \$10.20.

13. Receive from Briggs Electric Co. their credit memorandum, for 1 Utility Motor returned to them on July 11, Form 36.

14. Receive of H. L. Brown & Co. their note dated July 10, due in 30 da., with interest at 6%, in payment of our invoice of July 10, Form 37.

14. Receive the invoice dated July 11 and goods ordered on purchase order No. 13 from National Manufacturing Co., Troy, N.Y., Form 38.

15. Deliver by truck to Warren Bros., City, the following goods ordered today. Terms: 3% cash.

6 #87A Flashlights @	\$0.60
6 #8762 Lamps @	4.50
3 #8324 Lamps @	6.00
4 #8764 Lamps @	12.00

15. Pay John K. Bacon and Joseph H. Bates each \$75 by check, to apply on their monthly salary.

15. Accept the draft drawn on us by the Fitchburg Electric Co., Form 39, and return it to them.

16. Remit to Briggs Electric Co. a check, in payment of the balance due on their invoice of July 7.

16. Remit to the National Manufacturing Co. a check, in payment of their invoice of July 11.

17. Receive the invoice dated July 14 and goods ordered on purchase order No. 14 from J. L. Sears Co., Buffalo, N. Y., Form 40.

18. Ship the following order to B. A. Frank & Co., Elyria, Ohio. Terms: 3% cash, f.o.b. Cleveland.

6	Chafing Dishes	@	\$11.25
6	Curling Irons	@	7.50
12	6-foot Silk Cords	@	0.90
12	12-foot Silk Cords	@	1.20
6	9-inch Fans	@	9.00

18. Return to J. L. Sears Co. their trade acceptance, Form 41, properly accepted, in payment of their invoice of July 14.

Post all books of original entry to the ledger.

20. Remit to Fitchburg Electric Co. a check, in payment of our draft due today.

The instructor should mark the draft "Paid July 20," and it should then be filed in the *Receipts and Paid Items* envelope.

20. Receive of Warren Bros. their check, in payment of our invoice of July 15, Form 42.

21. Receive of B. A. Frank & Co. their check, in payment of our invoice of July 18, Form 43.

21. Deposit all checks which have been received.

22. Discount at 6% at the Traders Bank the 30-day trade acceptance of Jones & Jones, received on July 6.

Take this trade acceptance from the *Notes Receivable* envelope, indorse it in full, payable to the Traders Bank, and file it in the *Bank* envelope.

23. Pay cash, for postage, \$5.

23. Draw a sight draft on P. L. Hood & Co., for the invoice of June 17, and hand to the Traders Bank for collection.

Make out the sight draft and file in the *Bank* envelope.

24. Remit to J. L. Sears Co. a check, in payment of our trade acceptance dated July 14.

25. Pay the Sanborn Grocery Co. by check, for the household bill of Mr. Bacon, \$58.10, Form 44.

25. Pay the salaries of the employees, for two weeks, by check.

27. Discount at 6% at the Traders Bank our 30-day note for \$500.

28. Ship the following order to William Frost & Co., Lorain, Ohio.
Terms: 3/5, n/30, f.o.b. Cleveland.

4 6-pound Irons	@ \$6.75
2 Ironing Machines, Gas	@ 150.00
3 Refrigerators	@ 112.50
2 Utility Motors	@ 22.50

28. Mr. Bates takes from the store for personal use

2 #7684 Shades	@ \$6
2 #7693 Shades	@ 1

29. The Traders Bank reports that it has collected the sight draft drawn on P. L. Hood & Co. and has credited the amount, less 30¢ for collection, to your account.

30. William Frost & Co. return 2 6-pound Irons invoiced to them on July 28.

30. Receive the invoice dated July 27 and goods ordered on purchase order No. 15 from the National Manufacturing Co., Troy, N. Y., Form '45.

31. Pay the Main Street Garage, City, by check, for their bill for gasoline, repairs, and storage of auto, \$48.25, Form 46.

31. Pay John K. Bacon and Joseph H. Bates, each \$75 by check, for the balance of their monthly salary.

Complete the posting of all the items in the books of original entry to the ledger.

Inventories. The inventories on hand on July 31 were as follows:

Merchandise	\$4104.40
Office Supplies	20.00

The insurance for the month was \$6.77.

The furniture and furnishings are valued at cost.

Closing the Set. Rule, foot, and post the totals of the purchases, sales, and cash journals.

Take a trial balance and record it in Blank A on the page indicated in the index.

Hand the books to the instructor for inspection and approval.

Prepare the profit and loss statement and the balance sheet, and record them in Blank A on the pages indicated by the index.

Make the necessary journal entries and postings to close the ledger.

Divide the net profit equally between the partners according to agreement. Balance the partners' drawing accounts.

Balance the *Cash* account.

Rule all accounts that are in balance.

Take a proof trial balance.

Hand all books to the instructor.

Exercise 94. Written

MONTHLY BANK STATEMENT

1. Make out the monthly bank statement for the month of July, Set IV.

The following checks were unpaid at the end of the month:

CHECK NUMBER	DATE	AMOUNT
43	7/31	\$48.25
44	7/31	75.00
45	7/31	75.00

2. Prepare a reconciliation of the bank-statement balance and the check-book balance.

CHAPTER XXVI

EXPLANATION OF NEW ACCOUNTS

Accounts with Real Estate. The value of land owned is recorded in an account called *Land*, and the value of the building or buildings on the land is recorded in an account called *Building* or *Buildings*.

The Land Account. The *Land* account is debited for the purchase price of land, legal expense connected with the purchase, and any expenditures for grading, sewer construction, curbing, etc. It is credited for the sales price of land sold. If the selling price is greater than the cost, the excess is credited to an account called *Profit on Sale of Land*. If the selling price is less than the cost, the difference is debited to an account called *Loss on Sale of Land*.

To illustrate, assume that on Oct. 1, 19—, H. L. Brown pays \$4000 cash to James Barclay for a piece of land and that he also pays \$48 to the lawyer for looking up the title, etc. This transaction would be recorded in the cash journal, as follows :

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.	GENERAL LEDGER DEBITS	
Oct.	1	Land	Purchased from Jas. Barclay	4000	—		4000	—
	1	Land	Legal expenses in connection with above land	48	—		48	—

The explanation of the transaction might very properly include a description of the land purchased ; that is, by lot and block number or by quarter, range, and township.

If this land were sold on Feb. 2 of the following year to M. L. Martin for \$5000 cash, the entry to be made in the cash journal would be as follows :

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS	
Feb.	2	Land	Sale of land purchased Oct. 1 to M. L. Martin (see G.J. entry, p. 279)	5000	—		5000	—

The difference between the cost price and the selling price would be entered in the general journal, as follows:

Feb. 2, 19—					
Land		952	—		
Profit on Sale of Land				952	—
To record the profit made on the sale of land to M. L. Martin. Cost of land, \$4048; selling price, \$5000.					

If this land were sold to M. L. Martin for \$3500, the entry in the cash journal would be as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	GENERAL LEDGER CREDITS
Feb. 2		Land	Sale of land purchased Oct. 1 to M. L. Martin (see G. J. entry, p. 279)	3500 —		3500 —

The difference between the cost price and the selling price would be entered in the general journal, as follows:

Feb. 2, 19—					
Loss on Sale of Land		548	—		
Land				548	—
To record the loss suffered in the sale of land to M. L. Martin. Cost of land, \$4048; selling price, \$3500.					

Both the *Profit on Sale of Land* and the *Loss on Sale of Land* accounts would be closed into the *Profit and Loss* account.

The Building Account. The *Building* account is debited with the cost price of buildings purchased or constructed and with the cost of additions or improvements made on buildings. If the building is sold, the *Building* account is credited with the sales price. The cost of fixtures attached to and a part of a building, such as plumbing, heating, and electrical fixtures, usually is considered as a part of the cost of the building. Any fees or expenses incurred in connection with the purchase of buildings should also be charged against the cost of such buildings.

In case land and buildings are purchased at the same time, the total cost should be divided between the two asset accounts on some equitable basis.

The account title *Building and Fixtures* is frequently used rather than the account title *Building*.

To illustrate, assume that on Oct. 15 J. M. Carr bought a building for \$5000 cash from T. A. Mack. This transaction would be recorded in the cash journal, as follows:

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.		GENERAL LEDGER DEBITS	
Oct. 15		Building	Purchase of building from T. A. Mack	5000	—			5000	—

The explanation of the transaction might very properly include a description of the building purchased; that is, three-story brick building located at 125 Hoyt St., Beloit, Wis.

If this building were sold on Feb. 20 of the following year to H. C. Blake for \$5500 cash, the entry to be made in the cash journal would be as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES		GENERAL LEDGER CREDITS	
Feb. 20		Building	Sale of building purchased Oct. 15 to H. C. Blake (see G. J. entry, p. 280)	5500	—			5500	—

The difference between the cost price and the selling price would be entered in the general journal, as follows:

Feb. 20, 19—.			
Building	500	—	
Profit on Sale of Building			500 —
To record the profit made on the sale of building to H. C. Blake. Cost of building, \$5000; selling price, \$5500.			

If this building were sold to H. C. Blake for \$4600, the entry in the cash journal would be as follows:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES		GENERAL LEDGER CREDITS	
Feb. 20		Building	Sale of building purchased Oct. 15 to H. C. Blake (see G. J. entry, p. 281)	4600	—			4600	—

The difference between the cost price and the selling price would be entered in the general journal, as follows:

Feb. 20, 19—			
Loss on Sale of Building	400	—	
Building			400 —
To record the loss suffered in the sale of building to H. C. Blake. Cost of building, \$5000; selling price, \$4600.			

Both the *Profit on Sale of Building* and the *Loss on Sale of Building* accounts are closed into the *Profit and Loss* account.

Repairs to Building. To maintain a building and fixtures in good condition, expenses must be incurred for the repairs to and the maintenance of such building and fixtures, such as repainting, reroofing, repairing boilers, etc. An account called *Repairs to Building* is kept to record the cost of all such expenses, and it is closed into the *Profit and Loss* account at the end of a fiscal period.

Property Taxes. The taxes paid a town or city upon land and buildings are debited to an account called *Property Taxes*, and it is closed into the *Profit and Loss* account at the end of a fiscal period.

Insurance. The charges paid for insurance on buildings against loss by fire, tornado, flood, breakage of plate glass, etc. are debited to the *Unexpired Insurance* account, as described on pages 252 and 253. The *Insurance* account, containing the cost of property insurance for a fiscal period, is closed into the *Profit and Loss* account.

The charge which the insured agrees to pay for the protection given by an insurance company is called the *premium*.

Depreciation on Building. Another expense connected with the ownership of building and fixtures is *depreciation* — the loss due to wear and tear and general decay. This decrease in value must be considered as a cost of doing business before the profit or loss of the period is determined. The account in which this annual shrinkage in value is recorded is called *Depreciation*, and it is closed into the *Profit and Loss* account at the end of a fiscal period.

To illustrate the fact that fixed assets, with the exception of land, wear out and become of no value, assume that J. M. Baird bought a frame building, for use as a warehouse in his business, and paid \$1200 for it. Such a building may be usable for but ten or twelve years, in spite of the fact that repairs would be made upon it from time to time.

If Mr. Baird considers that this building would last for ten years, he should take one tenth of its cost price, or \$120, for each of the ten years, or \$10 per month, as a cost of doing business due to the general decay of the building.

Reserve for Depreciation of Building. Since the depreciation referred to in the preceding paragraphs is a decrease or loss in the value of an asset due to wear and tear and general decay, it is obvious that it is a cost of doing business quite different from repairs, property taxes, and insurance, for which cash is paid out. The building and fixtures depreciate because of use and the passage of time, and not because one would or could purchase depreciation as he might buy repairs for a boiler, or pay taxes, or pay a premium on a fire-insurance policy. The debit to the *Depreciation* account is offset by a credit to an account called *Reserve for Depreciation*, which records the accumulated periodical charges which were made to the *Depreciation* account. These charges have been deducted from gross profit the same as other expenses in ascertaining the net profit for the period. The *Reserve for Depreciation* account thus measures the accumulated amount which is reserved for the replacement of the building and fixtures. The amount of the *Reserve for Depreciation* account is not represented by a specific cash fund, although the amount it represents is employed in the general conduct of the business.

To illustrate, by using the same data as above, the monthly depreciation on Mr. Baird's warehouse would be recorded by making and posting the following journal entry:

Depreciation	10	—		
Reserve for Depreciation, Building			10	—
To record the monthly estimated depreciation on the building costing \$1200; annual rate of depreciation, 10 %.				

The *Depreciation* account is closed into the *Profit and Loss* account.

When a balance sheet is taken, the *Reserve for Depreciation* account is deducted from the asset account, and only the net value is extended; thus the building items would appear upon the balance sheet of Mr. Baird at the end of the first year, as follows:

Building	\$1200	
Less Reserve for Depreciation	<u>120</u>	\$1080

Summary Illustration of Depreciation and Reserve for Depreciation of Building. In order to illustrate summarily the use of the *Depreciation* and *Reserve for Depreciation* accounts as applied to buildings and fixtures, assume that T. R. Murdock built a brick store building, which, with attached fixtures, cost \$20,000. The annual depreciation on a brick store building is estimated at 3 %.

The annual depreciation is therefore \$600, the monthly depreciation \$50, and the following entry would be made and posted to record the depreciation and credit the depreciation reserve:

Depreciation	50	—		
Reserve for Depreciation, Building			50	—
To record the monthly estimated depreciation on the building and fixtures costing \$20,000; annual rate of depreciation, 3 %.				

The *Depreciation* account would be closed into the *Profit and Loss* account by making and posting the following journal entry:

Profit and Loss	50	—		
Depreciation			50	—
To close the <i>Depreciation</i> account into the <i>Profit and Loss</i> account.				

The *Reserve for Depreciation, Building*, account would remain open upon the books as a reserve account and would appear in a balance sheet taken at the end of the first month, as follows:

Building	\$20,000	
Less Reserve for Depreciation	<u>50</u>	\$19,950

In the classification of accounts of a business a reserve for depreciation account follows immediately after the asset for which it was created; therefore the *Reserve for Depreciation, Building*, account would appear immediately after the *Building* account in the ledger.

The manner of recording the profit or loss made on the sale of an asset for which a reserve for depreciation has been accumulated is not discussed until Chapter XXXIV.

Furniture and Furnishings. In many businesses there are counters, shelves, display cases, chairs, desks, safes, typewriter, and many other items of equipment which may all be included under the account name *Furniture and Furnishings*. To such an account is charged the cost of furniture and furnishings used inside the business establishment.

In some retail businesses the *Furniture and Furnishings* account is separated into two accounts called *Store Furniture and Furnishings* and *Office Furniture and Furnishings*.

Depreciation and Reserve for Depreciation of Furniture and Furnishings. Just as buildings and fixtures decline in value due to use and the passage of time, so furniture and furnishings depreciate. This decrease in the value of the furniture and furnishings due to wear and tear and general decay must be recognized if the true profit or loss of a period

is to be determined. A *Depreciation* account is charged with the amount of the depreciation for the fiscal period, and a *Reserve for Depreciation, Furniture and Furnishings*, account is credited with the amount charged for depreciation.

To illustrate the use of the *Depreciation* and *Reserve for Depreciation, Furniture and Furnishings* accounts, assume that Ball & Co. have purchased furniture and furnishings which cost them \$6000, and that they decide to depreciate this asset 10% per year. Accordingly, the monthly general-journal entry to be made would be as follows:

Depreciation	50	—		
Reserve for Depreciation, Furniture and Furnishings			50	—
To record the monthly estimated depreciation on furniture and fur- nishings costing \$6000; annual rate of depreciation, 10 %.				

The *Depreciation* account is closed into the *Profit and Loss* account. The amount reserved for depreciation would appear in a balance sheet as a deduction from the value of the *Furniture and Furnishings*, and only the net amount would be extended. Thus, at the end of a year, the accounts would appear upon a balance sheet, as follows:

Furniture and Furnishings	\$6000	
Less Reserve for Depreciation, Furniture and Furnishings	<u>600</u>	\$5400

Auto Trucks. The cost of all automobile trucks owned by a business may be debited to an account called *Auto Trucks*.

Depreciation and Reserve for Depreciation of Auto Trucks. The *Depreciation* and *Reserve for Depreciation, Auto Trucks*, accounts are kept for the same reasons, and the entries are made in the same way as for the corresponding accounts kept for buildings and for furniture and furnishings.

Exercise 95. Written

USE OF NEW ACCOUNTS

1. C. N. Jordan buys a house and lot from J. M. Dunn for \$12,000 cash, the lot being valued at \$1000. Make the entry to record the purchase.

2. Two months later Mr. Jordan sells the house and lot above mentioned for \$13,000 cash. Give the entries to record the sale.

The profit or loss resulting from the sale of land and building may be divided between land and building in proportion to the cost price of each asset.

3. Give the entries, assuming that the house and lot were sold for \$10,000 cash.

4. A. T. Scott buys a lot and store building from George C. Holmes and pays \$24,000 cash for them. He believes the building to be worth \$20,000. The annual depreciation on the building is estimated to be 5% per year. Give the entries to record these facts and show how the *Building* and the *Reserve for Depreciation, Building*, accounts would appear in the balance sheet at the close of the first year.

5. Give the entries to record the following:

Mr. Scott pays \$300 for having the store building painted.

He pays \$180 for fire-insurance premiums on the building and fixtures.

He pays \$100 for having the roof tarred.

6. William Hogan purchases a lot and store building from Carl Martin for \$15,000, the lot being valued at \$2000. During the year Mr. Hogan pays \$1000 for repairs to the building, he pays property taxes of \$200, and on the building and fixtures he takes out fire insurance costing him \$120. Mr. Hogan estimates that the building will last twenty-five years, and therefore that it depreciates 4% per year.

Give the entries recording the purchase and payment of the appropriate items mentioned above, the entry to record the annual depreciation, and the entries to close the necessary accounts into *Profit and Loss*.

Show how the *Reserve for Depreciation* account would appear in a balance sheet.

7. Mr. Hogan buys furniture and furnishings amounting to \$2400 and decides to depreciate this asset at 10% per year. Give the entries to record the purchase of this asset and the monthly depreciation, and show how the asset and *Reserve for Depreciation* account would appear in a balance sheet taken at the close of the third month.

8. Mr. Hogan buys an auto delivery truck for \$1440, which he estimates will depreciate at the rate of $33\frac{1}{3}\%$ per year. Give the entries to record the purchase of this asset and the monthly depreciation, and show how the asset and the *Reserve for Depreciation* account would appear in a balance sheet taken at the close of the tenth month.

Exercise 96. Written

REVIEW

From the following trial balance and notations, prepare;

(a) the profit and loss statement;

(b) the balance sheet;

(c) the adjusting and closing entries.

Moore & Baker

TRIAL BALANCE

Jan. 31, 19—

Cash	\$1,485.30	
Notes Receivable	855.20	
Accounts Receivable	938.65	
Merchandise Inventory, Jan. 1	4,090.55	
Land	1,000.00	
Buildings	5,000.00	
Reserve for Depreciation, Buildings		\$300.00
Furniture and Furnishings	450.00	
Reserve for Depreciation, Furn. and Furn.		135.00
Auto Truck	1,200.00	
Reserve for Depreciation, Auto Truck		400.00
Unexpired Insurance	72.00	
Fuel Inventory	82.00	
Office Supplies Inventory	76.60	
Notes Payable		820.00
Accounts Payable		962.15
F. E. Moore, Investment		6,000.00
F. E. Moore, Drawing	97.50	
R. W. Baker, Investment		6,000.00
R. W. Baker, Drawing		174.50
Merchandise Sales		6,672.40
Sales Returns and Allowances	124.00	
Merchandise Discount on Purchases		61.40
Interest Income		7.50
Merchandise Purchases	5,603.20	
Purchases Returns and Allowances		97.30
Freight and Cartage In	33.00	
Salaries	350.00	
Repairs to Buildings	58.10	
Sundry General Expense	32.70	
Merchandise Discount on Sales	72.80	
Interest Expense	8.65	
	<u>\$21,630.25</u>	<u>\$21,630.25</u>

Notations

Merchandise Inventory, Jan. 31	\$4,360.50
Insurance for the month	6.00
Fuel Inventory	63.00
Office Supplies Inventory	55.00
Depreciation on buildings, 2 % per year.	
Depreciation on furniture and furnishings, 10 % per year.	
Depreciation on auto truck, $33\frac{1}{3}$ % per year.	

What are the entries to record these notations called?

What is meant by *closing entries*?

After posting the above entry the accounts will then appear as follows :

MERCHANDISE INVENTORY

19—						19—					
May	1	G. J.	5	2400	—	May	31	G. J.	9	2400	—

MERCHANDISE PURCHASES

19—											
May	31	P. J.	10	3000	—						
	31	G. J.	9	2400	—						

2. The next entry is to record the inventory of May 31 in the *Merchandise Purchases* account. The following is the entry :

Merchandise Inventory	2600	—		
Merchandise Purchases			2600	—
To record the merchandise inventory and to credit the <i>Merchandise Purchases</i> account for the merchandise remaining unsold on May 31.				

After posting this entry the accounts will appear as follows :

MERCHANDISE INVENTORY

19—						19—					
May	1	G. J.	5	2400	—	May	31	G. J.	9	2400	—
May	31	G. J.	9	2600	—						

MERCHANDISE PURCHASES

19—						19—					
May	31	P. J.	10	3000	—	May	31	G. J.	9	2600	—
	31	G. J.	9	2400	—						

3. The difference between the sides of the *Merchandise Purchases* account will show the cost of the merchandise sold. This amount is used in the following entry :

Merchandise Trading	2800	—		
Merchandise Purchases			2800	—
To transfer the balance of the <i>Merchandise Purchases</i> account, representing the cost of merchandise sold, to the <i>Merchandise Trading</i> account.				

After posting this entry the accounts will appear as follows:

MERCHANDISE PURCHASES

19—						19—					
May	31	P.J.	10	3000	—	May	31	G.J.	9	2600	—
	31	G.J.	9	2400	—		31	G.J.	9	2800	—
				5400	—					5400	—

MERCHANDISE TRADING

19—											
May	31	G.J.	9	2800	—						

4. The *Merchandise Sales* account should be closed into the *Merchandise Trading* account. The entry is as follows:

Merchandise Sales	4000	—		
Merchandise Trading			4000	—
To close the <i>Merchandise Sales</i> account into the <i>Merchandise Trading</i> account.				

After posting this entry the accounts will appear as follows:

MERCHANDISE SALES

19—						19—					
May	31	G.J.	9	4000	—	May	31	S.J.	25	4000	—

MERCHANDISE TRADING

19—						19—					
May	31	G.J.	9	2800	—	May	31	G.J.	9	4000	—

5. The difference between the sides of the *Merchandise Trading* account will now show the gross profit on sales. This amount is used in the following entry:

Merchandise Trading	1200	—		
Profit and Loss			1200	—
To transfer the balance of the <i>Merchandise Trading</i> account, representing gross profits on sales, to the <i>Profit and Loss</i> account.				

After posting this entry the accounts will appear as follows:

MERCHANDISE TRADING

19—						19—					
May	31	G. J.	9	2800	—	May	31	G. J.	9	4000	—
	31	G. J.	9	1200	—						
				4000	—					4000	—

If the debit of the *Merchandise Trading* account is larger than the credit, a loss on merchandise sales has been incurred. The account is then closed by debiting *Profit and Loss* and crediting *Merchandise Trading*.

PROFIT AND LOSS

						19—					
						May	31	G. J.	9	1200	—

The remaining profit and loss accounts are closed as usual.

Exercise 97. Written

MERCHANDISE TRADING ACCOUNT

In each of the following exercises, open ledger accounts for *Merchandise Inventory*, *Merchandise Sales*, *Merchandise Purchases*, and *Merchandise Trading*; make and post the adjusting and closing entries; and show as a balance of *Merchandise Trading* the amount to be transferred to *Profit and Loss*.

	OPENING MERCHANDISE INVENTORY	MERCHANDISE PURCHASES	MERCHANDISE SALES	CLOSING MERCHANDISE INVENTORY
1.	\$2100	\$4750	\$7250	\$1800
2.	3375	5690	6000	2700
3.	2740	7250	8575	4100
4.	3750	7725	8100	3300

5. From each of the two trial balances and notations given in Exercise 93, make the necessary journal entries to prepare the *Merchandise Trading* account, showing as a balance thereof the amount to be transferred to the *Profit and Loss* account.

Real and Nominal Accounts. On pages 82 and 83, real and nominal accounts were defined and illustrated. In order to show the classification of typical accounts used up to this time, by real and nominal and assets, liabilities, proprietary interest, income and expense, the following outline is presented. It contains the accounts given in the trial balance on page 286.

Real

Assets

Cash

Notes Receivable

Accounts Receivable

Merchandise Inventory

Land

Buildings

Reserve for Depreciation, Buildings (Credit account)

Furniture and Furnishings

Reserve for Depreciation, Furniture and Furnishings (Credit account)

Auto Truck

Reserve for Depreciation, Auto Truck (Credit account)

Unexpired Insurance

Fuel Inventory

Office Supplies Inventory

Liabilities

Notes Payable

Accounts Payable

Proprietary Interest

F. E. Moore, Investment

F. E. Moore, Drawing

R. W. Baker, Investment

R. W. Baker, Drawing

Nominal

Income

Merchandise Sales

Sales Returns and Allowances (Debit account)

Merchandise Discount on Purchases

Interest Income

Expense

Merchandise Purchases

Purchases Returns and Allowances (Credit account)

Freight and Cartage In

Salaries

Repairs to Buildings

Sundry General Expense

Merchandise Discount on Sales

Interest Expense

Exercise 98. Oral and Written

REAL AND NOMINAL ACCOUNTS

1. Name the real and nominal accounts in the trial balance on page 219.

2. *a.* Name the assets, liabilities, proprietary-interest, income, and expense accounts in the trial balance on page 240.

b. Which of these accounts are real and which are nominal?

3. Name the real and nominal accounts, classifying each of these accounts by the kind of real account (asset, liability, or proprietary interest) and by the kind of nominal account (income or expense) in Exercise 93.

4. The following accounts are arranged alphabetically in the ledger of Harris & Davis. Rearrange and group them according to the plan followed in this text.

Accounts Payable	Merchandise Discount on Purchases
Accounts Receivable	Merchandise Discount on Sales
Cash	Merchandise Inventory
Collection and Exchange	Merchandise Purchases
Davis, Drawing	Merchandise Sales
Davis, Investment	Merchandise Trading
Freight and Cartage In	Profit and Loss
Freight and Cartage Out	Rent Expense
Fuel	Salaries
Fuel Inventory	Sundry General Expense
Harris, Drawing	Trade Acceptances Payable
Harris, Investment	Trade Acceptances Receivable

5. The following accounts are arranged alphabetically in the ledger of X. Rearrange and group them according to the plan followed in this text.

Accounts Payable	Notes Payable
Accounts Receivable	Notes Receivable
Auto Trucks	Office Supplies
Buildings	Office Supplies Inventory
Cash	Profit and Loss
Collection and Exchange	Purchases Returns and Allowances
Depreciation	Repairs to Buildings
Fuel	Reserve for Depreciation, Auto Trucks
Fuel Inventory	Reserve for Depreciation, Buildings
Furniture and Furnishings	Reserve for Depreciation, Furniture and Furnishings
Insurance	Salaries
Interest Expense	Sales Returns and Allowances
Interest Income	Sundry General Expense
Land	Unexpired Insurance
Merchandise Discount on Purchases	X, Drawing
Merchandise Discount on Sales	X, Investment
Merchandise Inventory	
Merchandise Purchases	
Merchandise Sales	
Merchandise Trading	

6. Rearrange the accounts in the following trial balance taken from the ledger of Allen & Brown so that the order follows that given in this text:

Allen & Brown

TRIAL BALANCE

Dec. 31, 19—

Accounts Payable		\$829.90
Accounts Receivable	\$855.15	
Building	3,500.00	
Cash	687.25	
Chas. M. Allen, Drawing	50.00	
Chas. M. Allen, Investment		4,750.00
Freight and Cartage In	12.75	
Fuel Inventory	74.25	
Furniture and Furnishings	225.00	
Interest Expense	12.70	
Interest Income		7.75
Land	1,000.00	
Merchandise Discount on Purchases		83.00
Merchandise Discount on Sales	72.00	
Merchandise Inventory	4,642.53	
Merchandise Purchases	4,252.25	
Merchandise Sales		6,733.85
Notes Payable		479.90
Notes Receivable	967.85	
Office Supplies Inventory	67.50	
Purchases Returns and Allowances		84.70
Reserve for Depreciation, Building		140.00
Reserve for Depreciation, Furn. and Furn.		45.00
Salaries	250.00	
Sales Returns and Allowances	96.40	
Sundry General Expense	28.05	
Wm. A. Brown, Drawing	65.42	
Wm. A. Brown, Investment		3,750.00
Unexpired Insurance	45.00	
	<u>\$16,904.10</u>	<u>\$16,904.10</u>

7. Name the real accounts as they appear in the alphabetical lists given under questions 5 and 6.

8. Name the nominal accounts as they appear in the alphabetical lists given under questions 5 and 6.

9. What is the advantage of arranging ledger accounts according to the type or kind of account rather than of arranging them alphabetically?

Exercise 99. Oral

TOPICS FOR CLASS DISCUSSION

1. What items are debited to the *Land* account? If land is sold for more than it cost, state the name of the account in which the profit is recorded. How would this account be closed?

2. What reasons occur to you as to why the amount received by a merchant from the sale of a piece of land should not be credited to *Merchandise Sales*?

3. What items are debited to the *Building* account?

4. Name four accounts which record expenses incidental to the ownership of buildings. State the types of expense items chargeable to each account.

5. Explain the use of the *Reserve for Depreciation* account. Where does it appear in a classification of accounts? How is it shown in a balance sheet?

6. What items are debited to the *Furniture and Furnishings* account?

7. Give the monthly entry to record the depreciation, estimated at \$20, on furniture and furnishings. Into what account is *Depreciation* closed?

8. Give the monthly entry to record the depreciation on an auto truck which cost \$2700 and is estimated to depreciate $33\frac{1}{3}\%$ per year. If cash is not actually spent for this depreciation, how do you justify charging it as an expense of the business?

9. Describe the *Merchandise Trading* account, covering the purpose of the account, the debit to the account, the credit to the account, the interpretation of the balance, and the closing of the account.

10. Define the following terms: *real accounts*, *nominal accounts*. Give illustrations of each. What groups of accounts are included under each of these divisions? In which statements do the accounts of each of these divisions appear?

CHAPTER XXVII

CONTROLLING ACCOUNTS

Definition of Controlling Account. Where a ledger contains a number of similar accounts, such as accounts with customers or accounts with creditors, it is advisable that a method be employed by which a summary of all similar individual accounts is kept in the general ledger and the individual accounts themselves are kept in a separate ledger. The balance of the summary account in the general ledger should, at all times, equal the sum of the balances of the individual accounts contained in the separate ledger. Such a summary account is called a *controlling account*, which is defined as an account kept in the general ledger for the purpose of summarizing the details of accounts kept in some subsidiary ledger. Since the balance of a controlling account should agree with the sum of the balances of the individual accounts in the subsidiary ledgers, it is said to control those ledgers. If a controlling account and its subsidiary ledger are not in agreement, the errors must be discovered and corrected as soon as possible.

The Abstract. The use of a controlling account greatly reduces the number of accounts kept in the general ledger, and it thereby reduces the work of taking a trial balance of the general ledger. The list of the individual account balances in the subsidiary ledger is generally referred to as an *abstract*.

The sum of the amounts in the abstract must equal the balance of the controlling account.

Accounts Receivable Controlling Account. In many businesses all customers' accounts are kept in a separate subsidiary ledger, and a controlling account with *Accounts Receivable* is kept in the general ledger. The subsidiary ledger to the *Accounts Receivable* controlling account is referred to as a sales ledger, a customers' ledger, or an accounts-receivable ledger, and the details of individual customers' accounts appear therein.

Accounts Payable Controlling Account. Again all creditors' accounts are kept in a separate subsidiary ledger, and a controlling account with *Accounts Payable* is kept in the general ledger. The subsidiary ledger to the *Accounts Payable* controlling account is called a purchases ledger, a creditors' ledger, or an accounts-payable ledger, and the details of individual creditors' accounts appear therein.

Special-Column Journals. The use of controlling accounts is facilitated by having special columns in the cash journal and in the general journal and by posting the totals of such columns to the appropriate controlling accounts in the general ledger. No special columns are necessary in the sales journal or in the purchases journal, as explained in the following paragraphs.

The Sales Journal. The total sales as recorded in the sales journal are debited to the *Accounts Receivable* controlling account in the general ledger, and the amount of each individual sale is debited to the individual customer's account in the sales ledger. The *Merchandise Sales* account is credited with the total sales, the same as has been done previously.

The equality between debits and credits in the general ledger is maintained because the debit to *Accounts Receivable* is the sum of all the individual sales debited to the customers in the sales ledger, and therefore there are not two debits made in the general ledger for the one credit to *Merchandise Sales*. It should be remembered that the sales ledger is subsidiary to the *Accounts Receivable* account.

To illustrate, assume that the sales journal used by the Ambeco Co. records the following sales for a few days in June:

DATE	S. L.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES CR.	TOTAL
June 5	301	J. T. Beck		2% cash	1500	
6	301	A. M. Irish		30 day note	750	
6	301	T. L. Lewis		2/10, m/30	1300	
6	301	C. L. Hobbs		3/5, m/30	875	
8	301	C. R. White		2/10, m/30	925	
8	301	S. A. Brant		2/10, m/30	1025	
		Total Sales				6375
8		Accounts Receivable			6375	
8		Merchandise Sales				6375
					(301)	

A SALES JOURNAL

The sales journal would be posted as follows:

The total sales, \$6375, are debited to *Accounts Receivable* and are credited to *Merchandise Sales* in the general ledger, and the amount of each individual sale is debited to the respective customer's account in the sales ledger. The customers' accounts appear on page 301.

The S. L. column provides space for recording the folio of the sales ledger to which the amount is posted.

In the above illustration the only ledger folio indicated is that to which the *Accounts Receivable* is posted.

The addresses of customers and creditors are unnecessary for the purpose of illustrating the use of controlling accounts and they are therefore omitted.

The Purchases Journal. The total purchases as recorded in the purchases journal are credited to the *Accounts Payable* controlling account in the general ledger, and the amount of each individual purchase is credited to the individual creditor's account in the purchases ledger. The *Merchandise Purchases* account is debited with the total purchases, the same as has been done previously.

To illustrate, assume that the purchases journal used by the Ambeco Co. records the following purchases for a few days in June:

DATE	P.L.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.	TOTAL
June 2	302	Vale & Co.		3/5, n/30	2400—	
2	302	Farris & Co.		30 da. trade acceptance	2000—	
3	302	Fitch & Co.		5/10, n/30	750—	
4	302	Stroud & Co.		2/10, n/30	1200—	
6	302	Nye & Co.		2/10, n/30	500—	
6	302	Murray & Son		3/5, n/30	1000—	
		Total Purchases				7850—
8		Merchandise Purchases			7850—	
8		Accounts Payable				7850— (301)

A PURCHASES JOURNAL

The purchases journal would be posted as follows:

The total purchases, \$7850, are debited to *Merchandise Purchases* and are credited to *Accounts Payable* in the general ledger, and the amount of each individual purchase is credited to the respective creditor's account in the purchases ledger. The creditors' accounts appear on page 302.

The P.L. column provides space for recording the folio of the purchases ledger to which the amount is posted.

In the above illustration the only ledger folio indicated is that to which the *Accounts Payable* is posted.

The Cash Journal. As stated above, special columns are usually provided in the cash and general journals to facilitate the use of controlling accounts. The ruling of the cash-received side of such a cash journal, having a special column for *Accounts Receivable*, is shown at top of page 298.

It should be noticed that all cash received is entered in the Net Cash column; if the amount received is not in payment of merchandise sold to a customer, the amount is extended into the General Ledger Credits column; if the amount received is in payment of merchandise sold to a customer, the discount taken on the invoice is entered in the Merchandise Discount on Sales column; then the sum of the net cash

Cash Received

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	ACCOUNTS RECEIVABLE	GENERAL LEDGER CREDITS
June 6		Notes Receivable	Note of J. Buck	575.-			575.-
6		Interest Income	On above note	575.-			575.-
6 30		J. T. Buck	Invt. 6/5 less 2%	1470.-	30.-	1500.-	
6 30		T. L. Lewis	Invt. 6/6 less 2%	1274.-	26.-	1300.-	
8		Notes Payable	Discounted note	500.-			500.-
				3824.75	56.-	2800.-	1080.75

THE CASH-RECEIVED SIDE OF THE CASH JOURNAL

and the sales discount is entered in the Accounts Receivable column. After the entries are made on the cash-received side of the cash journal, the first thing to be done is to add the several columns. If the entries and additions are correct, the footings of the cash-received side of the cash journal would appear, in general-journal form, as follows:

	Cash	3824	75		
	Merchandise Discount on Sales	56	—		
✓	Accounts Receivable			2800	—
	General Ledger			1080	75

In the above illustration the only ledger folio indicated is that to which the total of the Accounts Receivable column is posted.

A book of original entry in which the accuracy of the work may be checked by balancing the sum of certain columnar totals against the sum of certain other columnar totals is called a *self-balancing* book of original entry.

The cash-received side of the cash journal would be posted as follows:

Debit the total cash received, the footing of the Net Cash column, to the debit of the *Cash* account in the general ledger.

Debit the total of the Merchandise Discount on Sales column to the debit of the *Merchandise Discount on Sales* account in the general ledger.

Credit each amount in the Accounts Receivable column to the credit of the respective individual's account in the sales ledger.

Credit the total of the Accounts Receivable column to the credit of the *Accounts Receivable* controlling account in the general ledger.

Credit each amount in the General Ledger column to the proper account in the general ledger.

The ruling of the cash-paid side of a cash journal having a special column for *Accounts Payable* is shown on the opposite page.

It should be noticed that all cash paid out is entered in the Net Cash column; if the amount paid is not in payment of merchandise pur-

chased, the amount is extended into the General Ledger Debits column; if the amount paid is in payment of merchandise purchased, the discount on the invoice is entered in the Merchandise Discount on Purchases column; then the sum of the net cash and the purchase discount is entered in the Accounts Payable column.

Cash Paid

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH	MDSE. DISC. ON PURCH.	ACCOUNTS PAYABLE	GENERAL LEDGER DEBITS
June 5		Unexpired Insurance Premium		75-			75-
5	302	Vale & Co	Inv 6/2 less 3%	2328-	72-	2400-	
6		Notes Payable	Note due H. Davis	500-			500-
6		Interest Expense	On above note	250			250
6		Office Supplies Inv.	Stationery	25-			25-
8	302	Fitch & Co	Inv 6/3 less 5%	71250	3750	750-	
8		Interest Expense	On note discounted	5-			5-
				3648-	10950	3150-	60750
						(301)	

THE CASH-PAID SIDE OF THE CASH JOURNAL

After the entries are made on the cash-paid side of the cash journal and the several columns are added, the footings of the cash-paid side of the cash journal appear, in general-journal form, as follows:

✓	Accounts Payable	3150	—		
	General Ledger	607	50		
	Cash			3648	—
	Merchandise Discount on Purchases			109	50

The cash-paid side of the cash journal would be posted as follows:

Credit the total cash paid out, the footing of the Net Cash column, to the credit of the *Cash* account in the general ledger.

Credit the total of the Merchandise Discount on Purchases column to the credit of the *Merchandise Discount on Purchases* account in the general ledger.

Debit each amount in the Accounts Payable column to the debit of the respective individual's account in the purchases ledger.

Debit the total of the Accounts Payable column to the debit of the *Accounts Payable* controlling account in the general ledger.

Debit each amount in the General Ledger Debits column to the proper accounts in the general ledger.

In the above illustration the only ledger folio indicated is that to which the total of the Accounts Payable column is posted.

The General Journal. The following illustrates one form of general journal which shows how certain special columns may be used in connection with controlling accounts:

F.	ENTRY AND EXPLANATION	PURCHASES LEDGER DEBITS	GENERAL LEDGER DEBITS	SALES LEDGER CREDITS	GENERAL LEDGER CREDITS
	6				
302	Farris & Co	2000 ~			
	Notes Payable				2000 ~
	Accepted their 30 day				
	trade acceptances in pay-				
	ment of invoice of June 2.				
	8				
	Notes Receivable		750 ~		
301	A. M. Nash			750 ~	
	Received their 30 day				
	note in payment of in-				
	voice of June 6.				
		2000 ~	750 ~	750 ~	2000 ~
		(30)		(30)	

A FOUR-COLUMN GENERAL JOURNAL

The general journal would be posted as follows:

Each amount entered in the Purchases Ledger Debits column is debited to the individual's account in the purchases ledger. The total of the Purchases Ledger Debits column is posted to the debit of the *Accounts Payable* account in the general ledger.

Each amount entered in the General Ledger Debits column is posted to the debit of the respective account in the general ledger. The total is not posted.

Each amount entered in the Sales Ledger Credits column is credited to the individual's account in the sales ledger. The total of the Sales Ledger Credits column is posted to the credit of the *Accounts Receivable* account in the general ledger.

Each amount entered in the General Ledger Credits column is posted to the credit of the respective accounts in the general ledger. The total is not posted.

If the accounts receivable and accounts payable used in the above illustrations were posted to the controlling accounts in the general ledger, they would appear as given at the top of page 301.

For purposes of illustration the other accounts used in the journals are not posted.

If the individual accounts receivable were posted to the sales ledger, it would appear as shown on page 301.

Accounts Receivable

¹⁹⁻ June 8	Sf. 296	6375 -	¹⁹⁻ June 8	Cf. 298	2800 -
			8	Sf. 300	750 -

Accounts Payable

¹⁹⁻ June 8	Cf. 299	3150 -	¹⁹⁻ June 8	Sf. 297	7850 -
8	Sf. 300	2000 -			

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE — CONTROLLING ACCOUNTS

S. A. Brant

¹⁹⁻ June 8	Sf. 296	1025 -			
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¹⁹⁻ June 6	Sf. 296	875 -			
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¹⁹⁻ June 6	Sf. 296	1300 -	¹⁹⁻ June 6	Cf. 298	1300 -
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¹⁹⁻ June 6	Sf. 296	750 -	¹⁹⁻ June 8	Sf. 300	750 -
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¹⁹⁻ June 8	Sf. 296	1500 -	¹⁹⁻ June 6	Cf. 298	1500 -
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¹⁹⁻ June 8	Sf. 296	925 -			
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SALES LEDGER SHOWING ACCOUNT RECEIVABLE — POSTINGS

The balance of the *Accounts Receivable* controlling account in the general ledger is \$2825. The abstract of the sales ledger shows the sum of the balances of the individual customers' accounts also to be \$2825.

Abstract, Sales Ledger

301	<i>S. A. Brant</i>	1025-	
301	<i>A. L. Hobbs</i>	875-	
301	<i>C. R. White</i>	925-	
	<i>Balance per Accounts Receivable in General Ledger</i>		2825-
		2825-	2825-

ABSTRACT, SALES LEDGER

The purchases ledger, after posting, appears as follows:

Farris & Co.

¹⁹⁻ <i>June 6</i>	<i>Gf 300</i>	<i>2000-</i>	¹⁹⁻ <i>June 2</i>	<i>Pf 297</i>	<i>2000-</i>
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Fitch & Co.

¹⁹⁻ <i>June 8</i>	<i>Cf 297</i>	<i>750-</i>	¹⁹⁻ <i>June 3</i>	<i>Pf 297</i>	<i>750-</i>
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Murray & Son

¹⁹⁻ <i>June 6</i>	<i>Pf 297</i>	<i>1000-</i>
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Nye & Co.

¹⁹⁻ <i>June 6</i>	<i>Pf 297</i>	<i>500-</i>
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Stroud & Co.

¹⁹⁻ <i>June 4</i>	<i>Pf 297</i>	<i>1200-</i>
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Vale & Co.

¹⁹⁻ <i>June 5</i>	<i>Cf 299</i>	<i>2400-</i>	¹⁹⁻ <i>June 2</i>	<i>Pf 297</i>	<i>2400-</i>
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PURCHASES LEDGER SHOWING ACCOUNT PAYABLE POSTINGS

The balance of the *Accounts Payable* controlling account in the general ledger is \$2700. In the abstract of the purchases ledger the sum of the balances of the individual creditor's accounts is also \$2700.

Abstract, Purchases Ledger

302	Murray & Son	1000	—	
302	Nye & Co.	500	—	
302	Stroud & Co.	1200	—	
	Balance per Accounts Payable in General Ledger.			2700 —
		2700	—	2700 —

ABSTRACT, PURCHASES LEDGER

The use of controlling accounts and subsidiary ledgers shows how the books of final entry may be subdivided, the general ledger containing all the general accounts of the business, and each subsidiary ledger containing all the accounts of a similar nature, and represented in total by a controlling account in the general ledger.

Thus the two basic books of account, the journal and the ledger, which were used at the beginning of this text, are now replaced by several books, each of which contains certain definite information and results in a saving of both time and labor compared with the method of keeping but one journal and one ledger.

The use of special columns in books of original entry facilitates obtaining maximum information with minimum effort. This is illustrated in the four-column general journal on page 300 where the Purchases Ledger Debits column is used for recording all debits to creditors' accounts and where the Sales Ledger Credits column is used for recording all credits to customers' accounts.

Advantages of Using Controlling Accounts. The advantages of using a controlling account are as follows:

1. The trial balance of the general ledger is shortened because all the accounts appearing in a subsidiary ledger are summarized in the one general ledger controlling account. Thus the *Accounts Receivable* controlling account in the general ledger may replace hundreds of individual customers' accounts which now appear in the sales ledger.

2. Controlling accounts are checks against errors in the subsidiary ledgers.

3. A glance at the controlling accounts shows the amount owed to the business by customers or the amount owed by the business to creditors. Without these controlling accounts it would be necessary to take an abstract of the sales ledger to find out how much is owed to the business on account, and of the purchases ledger to find how much the business owes on account.

4. By using subsidiary ledgers, several persons may work on ledgers at the same time. Thus, in the bookkeeping of many concerns it is necessary to have several persons constantly posting sales, purchase and cash items to the customers' and creditors' accounts. If but one ledger were used and but one bookkeeper were employed, it would be impossible to keep such work up to date.

Exercise 100. Written

CONTROLLING ACCOUNTS

NOTE. For purposes of this exercise, the addresses of various customers and creditors are not necessary, and they are therefore omitted.

1. The following entries appear upon the sales journal and cash journal (cash-received side) of William A. Conway for the month of August. He keeps a controlling account with *Accounts Receivable*.

SALES JOURNAL

DATE	S.L.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.	TOTAL
Aug. 2		J. E. Bender		2/10, n/30	1250 —	
4		F. E. Moore		1% cash	865 —	
5		C. J. Turner		3/5, n/30	492 —	
7		E. M. Ryan		2/10, n/30	962 50	
10		C. C. Archer		2/10, n/30	128 75	
11		H. J. Holm		3/5, n/30	326 60	
14		A. T. Scott		2/10, n/30	718 10	
18		G. L. Collins		Cash	258 30	
23		J. E. Bender		2/10, n/30	755 20	
24		C. J. Turner		3/5, n/30	290 30	
27		J. H. Foley		2/10, n/30	391 50	
28		O. C. Jensen		Cash	479 60	
30		C. J. Turner		3/5, n/30	286 80	
31		F. L. Todd		2/10, n/30	588 —	
		Total sales				7792 65

CASH JOURNAL

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	ACCTS. REC.	GENERAL LEDGER CREDITS
Aug. 5		F. E. Moore	Inv. 8/4, less 1%	856 35	8 65	865 —	
9		C. J. Turner	Inv. 8/5, less 3%	477 24	14 76	492 —	
11		J. E. Bender	Inv. 8/2, less 2%	1225 —	25 —	1250 —	
16		H. J. Holm	Inv. 8/11, less 3%	316 80	9 80	326 60	
17		E. M. Ryan	Inv. 8/7, less 2%	943 25	19 25	962 50	
19		G. L. Collins	Inv. 8/18	258 30		258 30	
23		A. T. Scott	Inv. 8/14, less 2%	703 74	14 36	718 10	
27		C. J. Turner	Inv. 8/24, less 3%	281 59	8 71	290 30	
30		O. C. Jensen	Inv. 8/28	479 60		479 60	
				5541 87	100 53	5642 40	

Post each of the customer's accounts to the sales ledger and post the proper amounts to the general-ledger accounts.

Take a trial balance of the general-ledger accounts.

Prepare an abstract of the sales ledger.

2. The following entries appear in the purchases journal and cash journal (cash-paid side) of William A. Conway for the month of August. The ruling of the cash journal shows that he keeps a controlling account in his general ledger with *Accounts Payable*.

PURCHASES JOURNAL

DATE	P.L.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.		TOTAL
Aug.	2	Marsh & Co.		3/5, n/30	1602	—	
	4	Weaver & Son		Cash	815	—	
	5	Kendall Mfg. Co.		2/10, n/30	694	70	
	6	Morgan, Wright & Co.		1/30, n/60	232	50	
	9	J. E. Moore & Co.		2/10, n/30	311	—	
	11	Foley Mfg. Co.		Cash	690	—	
	12	A. G. Duncan		2/10, n/30	371	—	
	14	Diemer Co.		2/10, n/30	430	—	
	18	Geo. C. Stephens		1/30, n/60	614	—	
	21	Devine, Inc.		Cash	225	—	
	23	Kendall Mfg. Co.		2/10, n/30	486	40	
	26	J. E. Moore & Co.		2/10, n/30	218	90	
	28	Marsh & Co.		3/5, n/30	669	50	
		Total purchases					7360 —

CASH JOURNAL

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH	MDSE. DISC. ON PURCH.	ACCTS. PAY.	GENERAL LEDGER DEBITS
Aug.	5	Weaver & Son	Inv. 8/4	815 —		815 —	
	7	Marsh & Co.	Inv. 8/2, less 3%	1553 94	48 06	1602 —	
	12	Foley Mfg. Co.	Inv. 8/11	690 —		690 —	
	14	Kendall Mfg. Co.	Inv. 8/5, less 2%	680 81	13 89	694 70	
	18	J. E. Moore & Co.	Inv. 8/9, less 2%	304 78	6 22	311 —	
	23	Devine, Inc.	Inv. 8/21	225 —		225 —	
	24	Diemer Co.	Inv. 8/14, less 2%	421 40	8 60	430 —	
				4690 93	76 77	4767 70	

Post each of the creditors' accounts to the purchases ledger, and post the proper amounts to the general-ledger accounts.

Take a trial balance of the general-ledger accounts.

Prepare an abstract of the purchases ledger.

3. The following entries appear upon the books of M. T. Rogers for the period as shown. You are asked to post these books, remembering that Mr. Rogers keeps controlling accounts in his general ledger with both *Accounts Receivable* and *Accounts Payable*.

Accounts are to be opened in the general ledger, six to a page, with the following: *Cash*; *Notes Receivable*; *Accounts Receivable*; *Furniture and Furnishings*; *Office Supplies Inventory*; *Notes Payable*; *Accounts Payable*; *M. T. Rogers, Investment*; *Merchandise Sales*; *Sales Returns and Allowances*; *Merchandise Discount on Purchases*; *Interest Income*; *Merchandise Purchases*; *Purchases Returns and Allowances*; *Rent Expense*; *Merchandise Discount on Sales*.

Open accounts with the individual customers on a separate sheet of ledger paper and accounts with individual creditors on another sheet.

Prepare an abstract of the purchases ledger and of the sales ledger.

SALES JOURNAL

DATE	S.L.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.		TOTAL	
Apr.	5	William Coburn		Cash	462	50		
	8	R. A. Leonard		3/5, n/30	380	—		
	10	J. C. Proctor		10-day note	600	—		
	13	C. W. Lange		2/10, n/30	480	—		
	16	J. P. West		2/10, n/30	565	—		
	17	L. A. Hudson		1% cash	260	—		
	20	C. M. Lester		2/10, n/30	305	60		
	24	C. E. Piper		2/10, n/30	251	—		
	25	M. L. Williams		3/5, n/30	435	—		
		Total sales					3739	10

PURCHASES JOURNAL

DATE	P.L.	ACCOUNT CREDIT	ADDRESS	TERMS	MDSE. PURCH., DR.		TOTAL	
Apr.	2	Chase & Co.		1% cash	1230	—		
	5	Reed & Son		3/5, n/30	560	—		
	8	Lee Mfg. Co.		2/10, n/30	612	—		
	11	Jones & Lester		1/30, n/60	710	—		
	15	A. W. Shaw		2/10, n/30	520	—		
	18	G. H. Weaver		20-day note	485	—		
	22	Hill, Kent & Co.		2/10, n/30	653	—		
	23	Harris & Co.		2/10, n/30	440	—		
		Total purchases					5207	—

CASH RECEIVED

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH		MDSE. DISC. ON SALES		ACCTS. REC.		GENERAL LEDGER CREDITS	
Apr.	1	M. T. Rogers, Investment	Invested in business	3000	—					3000	—
	6	William Coburn	Inv. 4/5	462	50			462	50		
	13	R. A. Leonard	Inv. 4/8, less 3%	368	60	11	40	380	—		
	18	L. A. Hudson	Inv. 4/17, less 1%	257	40	2	60	260	—		
	20	Notes Receivable	Note of J. C. Proctor	600	—					600	—
	20	Interest Income	Int. for 10 da.	1	—					1	—
	23	C. W. Lange	Inv. 4/13, less 2%	392	—	8	—	400	—		
				5081	50	22	—	1502	50	3601	—

CASH PAID

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH		MDSE. DISC. ON PURCH.		ACCTS. PAY.		GENERAL LEDGER DEBITS	
Apr.	2	Rent Expense	Month of April	100	—					100	—
	3	Furniture and Fix.	Invoice of Davis Co.	250	—					250	—
	4	Chase & Co.	Inv. 4/2, less 1%	1217	70	12	30	1230	—		
	6	Office Sup. Inv.	Stationery	24	80					24	80
	9	Reed & Son	Inv. 4/5, less 3%	485	—	15	—	500	—		
	18	Lee Mfg. Co.	Inv. 4/8, less 2%	599	76	12	24	612	—		
				2677	26	39	54	2342	—	374	80

GENERAL JOURNAL

F.	ENTRY AND EXPLANATION	PURCHASES LEDGER DEBITS	GENERAL LEDGER DEBITS	SALES LEDGER CREDITS	GENERAL LEDGER CREDITS
	April 1, 19— M. T. Rogers this day began the retail furniture business, investing cash, \$3000.				
	8 Reed & Son	60	—		
	Purchases Returns and Allow- ances				60
	To record credit on invoice of April 5, per credit memoran- dum received today.				
	12 Notes Receivable		600		
	J. C. Proctor			600	
	Received his 10-day note dated April 10, with interest at 6%, in payment of invoice of April 10.				
	15 Sales Returns and Allowances		80		
	C. W. Lange			80	
	To record credit on invoice of April 13, per credit memo- randum issued today.				
	18 G. H. Weaver	485	—		
	Notes Payable				485
	Gave our 20-day note dated today, with interest at 6%, in payment of invoice of April 18.				
		545	—	680	—
			680	—	545

Exercise 101. Oral

TOPICS FOR CLASS DISCUSSION

1. Define a *controlling account*; a *subsidiary ledger*.
2. Refer to the sales journal on page 296 and state how many individual debits in the sales ledger are represented by the one debit to *Accounts Receivable* in the general ledger.
3. Refer to the cash journal on page 298 and state how many individual credits in the sales ledger are represented by the one credit to *Accounts Receivable* in the general ledger.

4. Refer to the purchases journal on page 297 and state how many individual credits in the purchases ledger are represented by the one credit to *Accounts Payable* in the general ledger.

5. Refer to the cash journal on page 299 and state how many individual debits in the purchases ledger are represented by the one debit to *Accounts Payable* in the general ledger.

6. Explain why the principles of double-entry bookkeeping are not violated when entries from a sales journal are posted to the debit of both the *Accounts Receivable* account in the general ledger and the individual customers' accounts in the sales ledger.

7. Explain why the principles of double-entry bookkeeping are not violated when entries from a purchases journal are posted to the credit of both the *Accounts Payable* account in the general ledger and the individual creditor's account in the purchases ledger.

8. Refer to the cash-received side of the cash journal on page 298 and explain exactly what is posted in detail and in total.

9. Refer to the cash-paid side of the cash journal on page 299 and explain exactly what is posted in detail and in total.

10. Explain the posting of the general journal shown on page 300.

11. State the advantages of using controlling accounts.

CHAPTER XXVIII

ACCRUALS

Accruals. During a fiscal period there may have been income earned which has not been received; likewise, there may have been expenses incurred which have not been paid. However, the income earned but not received and the expenses incurred but unpaid should appear upon the books and in the profit and loss statement. To credit such income and to charge such expenses in the succeeding period when payment is actually received or made produces unfair and misleading results. If the profit and loss statement were compiled only on the basis of cash receipts and disbursements, one period might show exceptional profits and another period unusual losses, but neither would be correct. To credit income and debit expense on the basis of the period when the income was earned and when the expense was incurred, irrespective of the time of actual receipt or actual payment, is to insure that the profit and loss statement will contain the proper amounts for any given period. It thus tends to set forth a more uniform operating condition. Income earned but not received and expenses incurred but unpaid are called *accruals*.

Accrued Income. While accruals may represent income not received or expenses unpaid, in the ordinary mercantile and manufacturing business, the former are far less frequent than the latter. Accrued interest on notes receivable is the most frequent instance of accrued income. On an interest-bearing note, at the end of a month, interest will have been earned; but it is not yet due, nor has payment been received. However, the profit and loss statement and the books should record the amount earned as income for the period.

To illustrate, assume that the interest accrued on notes receivable at the end of June amounts to \$20. This interest is not due until the notes are due, but it is clearly an item of income for the month of June and should be recorded as such. The adjusting entry which may be made in the general journal to record this item is as follows:

30				
Interest Accrued on Notes Receivable	20	—		
Interest Income			20	—
Accrued interest on notes receivable at the end of the month.				

The *Interest Income* account is closed into the *Profit and Loss* account for the month, but the *Interest Accrued on Notes Receivable* account appears as an asset in the balance sheet.

It will be noticed that if the month of June were not credited with the \$20 interest earned during that month, the profits for June would be understated by \$20, and the profits for the month of July, if the notes were paid during that month, would be overstated by \$20. Furthermore, the balance sheet on June 30 would fail to reveal this asset of \$20 which had been earned during June but which, on June 30, was not due and had not been received.

If interest of \$8 on a note is paid July 8, of which \$6 was accrued at the first of the month, the following entry would be made on the cash-received side of the cash journal:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	ACCTS. REC.	GENERAL LEDGER CREDITS
July	8	Interest Accrued on Notes Receivable	Interest received on notes receivable	6 —			6 —
	8	Interest Income		2 —			2 —

If all the other notes receivable on hand at the first of the month became due and were paid during the month of July, the interest received would also be divided into two parts: the one the amount accrued at the beginning of the month and the other the interest earned during the month. Thus the *Interest Accrued on Notes Receivable* account will balance, and the *Interest Income* account will record the actual interest earnings of the period.

If the interest accrued on notes receivable on hand at the end of July was \$12 and the *Interest Accrued on Notes Receivable* account showed a balance of \$6 from June, it would mean that one or more of the notes upon which interest had been accrued were still unpaid. Accordingly, an entry should be made bringing the balance of the *Interest Accrued on Notes Receivable* account up to \$12, as follows:

31			
Interest Accrued on Notes Receivable	6 —		
Interest Income		6 —	
To bring the balance in the <i>Interest Accrued</i> account up to the actual amount of interest accrued on notes receivable at the end of the month.			

Separate accrued accounts may be kept with other items of income such as *Accrued Rent Income*, or all items of accrued income may be kept under one account called *Accrued Income*.

Accrued Expenses. There are many types of accrued expense, but among those most usually found are accrued interest on notes payable, accrued salaries and wages, and sundry expense items such as freight, cartage, light, and telephone bills.

To illustrate the use of accrued-expense items, the interest accrued on notes payable will first be considered. Assume that the interest accrued on notes payable outstanding at the end of the month of June is \$15. This interest is not payable until the notes are due, but it is clearly an item of expense for the month and should be recorded as such. The adjusting entry which may be made in the general journal to record this item is as follows :

30					
Interest Expense		15	—		
Interest Accrued on Notes Payable				15	—
Accrued interest on notes payable at the end of the month.					

The *Interest Expense* account is closed into the *Profit and Loss* account for the month, but the *Interest Accrued on Notes Payable* account appears as a liability in the balance sheet.

If the month of June were not debited with the \$15 interest expense for that month, the profits for June would be overstated by \$15, and the profits for July, if the notes were paid during that month, would be understated by \$15. Furthermore, the balance sheet on June 30 would fail to reveal this liability of \$15, which had been incurred during June, but which, on June 30, was not due and had not been paid.

If \$7.50 interest were paid on a note, of which \$6 was accrued at the first of the month, the following entry would be made on the cash-paid side of the cash journal :

DATE		F.	ACCOUNT DEBIT	EXPLANATION	NET CASH	MDSE. DISC. ON PURCH.	ACCTS. PAY.	GENERAL LEDGER DEBITS
July	6		Interest Accrued on Notes Payable	Interest paid on notes payable	6 —			6 —
	6		Interest Expense		1 50			1 50

Accrued Salaries. Salaries and wages are frequently paid on a weekly basis, while statements are compiled for the calendar month. If the statements are to record accurately the operating costs of the month, the salaries for the days from the last date of payment must be considered. Owing to the frequency of occurrence of this condition with relation to salaries, an account is usually kept called *Accrued Salaries*.

To illustrate, assume that the unpaid salaries at the end of July were \$150. The adjusting entry to record this accrual in the general journal is as follows:

	31				
Salaries		150	—		
Accrued Salaries				150	—
To record salaries remaining un-					
paid at the end of the month.					

If the salaries actually paid during the month amounted to \$1975, then after posting the above entry \$2125 would be debited to *Profit and Loss* for the period. The *Accrued Salaries* account appears as a liability on the balance sheet.

Assuming that salaries of \$490 were paid on Aug. 5 following the making of the above entry, the entry would appear on the cash-paid side of the cash journal as follows:

DATE	F.	ACCOUNT DEBIT	EXPLANATION	NET CASH	MDSE. DISC. ON PURCH.	ACCTS. PAY.	GENERAL LEDGER DEBITS
Aug. 5		Accrued Salaries	Salaries for the week	150 —			150 —
5		Salaries		340 —			340 —

When this entry is posted, the *Accrued Salaries* account will be closed.

Instead of treating the *Accrued Salaries* account as above indicated, some bookkeepers would, on Aug. 1, reverse the entry made on July 31 by debiting *Accrued Salaries* and crediting *Salaries*. The *Accrued Salaries* account would then be closed. The total amount of salaries paid for the week would then be debited against the *Salaries* account, but since it would be credited with the amount accrued on July 31, the net effect would be that the *Salaries* account would show only salaries properly chargeable to August. The method first explained is followed throughout this text.

Miscellaneous Accrued-Expense Items. Very often separate accrued-expense accounts are not opened for each expense account, but such items are grouped together under a general accrual account called *Accrued Expenses*. Thus, separate accrued-expense accounts might not be kept for interest accrued on notes payable or for salaries accrued, but both might be included under the one accrual account called *Accrued Expenses*. Similarly, there may be unpaid expense items at the end of a month, such as the following, which might all be recorded in the *Accrued Expenses* account:

Telephone Bill	\$10.40
Electric-Light Bill	35.00
Freight on Goods Shipped	16.75
Freight and Cartage on Merchandise Purchased	18.35

The adjusting entry to be made in the general journal to record these unpaid items would be as follows :

Sundry General Expense	45	40		
Freight and Cartage Out	16	75		
Freight and Cartage In	18	35		
Accrued Expenses			80	50
To record the unpaid expenses at the close of the month. The general-expense items are				
Telephone Bill	\$10.40			
Electric-Light Bill	35.00			

When these items are paid, the debit would be to *Accrued Expenses* rather than to the individual accounts just debited by the above entry.

Accrued Property Taxes. Accounts are sometimes kept with *Accrued Property Taxes*, which represent the estimated share of property taxes for the month. The entry to record such estimated taxes is to debit *Property Taxes* and to credit *Accrued Property Taxes*. When the taxes are paid, the entry is to debit the *Accrued Property Taxes* for the amount so accumulated, to debit or credit *Property Taxes* for the difference between this amount and the actual amount of the taxes, and to credit *Cash* for the amount paid.

To illustrate, it may be estimated that the property taxes of a business for a year will amount to \$960, and the proprietor may decide to charge each month with its share of this estimated amount, \$80. At the close of the year the actual taxes may be \$1000, and the following journal entry would then be necessary :

Accrued Property Taxes	960	—		
Property Taxes	40	—		
Cash			1000	—
Property taxes for the year 19—.				

If the actual taxes were found to be but \$900, the entry would be as follows :

Accrued Property Taxes	960	—		
Cash			900	—
Property Taxes			60	—
Property taxes for the year 19—.				

When this entry is posted, the *Property Taxes* account will stand debited with \$900, the actual taxes for the year.

The Cash Basis and the Accrual Basis. The subject discussed in this chapter explains in an elementary way one of the most fundamental points in all accounting — the difference between the cash basis and the accrual basis of keeping records. The accounts of few businesses are kept on a strictly cash basis — a basis in which the excess of *income received in cash* over the *expenses paid in cash* determines the amount of profit for the period. The accounts of many businesses are kept upon the same basis as that followed in the preceding pages of this text — that of recognizing goods purchased and sold on account as necessary for consideration in determining the profit or loss for the period. If in addition to the method followed heretofore in this text all income and expenses are recorded as accrued at the end of each fiscal period, then the accounts are kept upon the *strictly accrual* basis. This distinction between the cash basis and the accrual basis is an important one from the standpoint of the determination of income taxable for both Federal and state purposes.

Exercise 102. Written

ACCRUALS

Give such general-journal and cash-journal entries as may be appropriate to record the following:

1. Interest accrued on notes receivable, Dec. 31, \$18.
2. On Jan. 15, interest was received on this note, \$22.50.
3. Interest accrued on notes payable, Dec. 31, \$7.50.
4. On Jan. 20 you paid the interest on this note, \$10.25.
5. The interest accrued on Dec. 31 on a note payable in favor of J. James, dated Dec. 20, at 90 da., for \$300, with interest at 6%.
6. The interest accrued on Dec. 31 on a note receivable signed by Chas. Sprague, dated Dec. 16, at 60 da., for \$450, with interest at 6%.
7. The daily pay roll of the Ross Co. is \$500, and the employees are paid every Saturday night. The last day of the month falls on Thursday.
8. Estimated property taxes for May, \$25.
9. Gas and electric-light bills for May unpaid, \$22.50.
10. Unpaid salary of proprietor for May, \$200.
11. Unpaid freight and cartage on goods purchased during May, \$37.50.
12. Payment of the above items as follows:

June 5	Proprietor's Salary	\$200.00
8	Freight and Cartage	37.50
10	Gas and Light Bill	22.50

Exercise 103. Oral

TOPICS FOR CLASS DISCUSSION

1. Explain what is meant by an *accrued-income item*; by an *accrued-expense item*.

2. Why is a consideration of such items necessary for the compilation of accurate statements?

3. Why is it well to have separate accrued-expense accounts for such items as salaries and property taxes?

4. How does an accrued-income item appear in a balance sheet? an accrued-expense item?

5. *a.* If an accrued-income item were not considered at the end of a period, would the income for that period be overstated or understated?

b. Would the assets on hand at the close of the period be overstated or understated?

6. *a.* If an accrued-expense item were not considered at the close of a period, would the expenses for that period be overstated or understated?

b. Would the liabilities owed at the close of the period be overstated or understated?

7. If a 60-day note for \$500, with interest at 6%, were given J. S. Walker on Dec. 1, what would be the accrued interest on Dec. 31? Give the entry to place this accrued interest upon the books. What entry would be made on Mr. Walker's books when the note and interest were paid?

8. If J. S. Walker gave a 30-day note for \$600, with interest at 6%, on Dec. 16, what would be the accrued interest on Dec. 31? Give the entry to place this accrued interest upon the books. What entry would be made on his books when he paid the note and interest?

9. Jackson & Co. pay their clerks weekly, but compile their profit and loss statements and balance sheets monthly. At the end of April they owe their clerks \$435 for salaries earned since the last pay day. Give the entry which should be made so that this item may be considered in the April statements. Give the entry to be made when salaries of \$870 are paid on May 3.

10. Jackson & Co. find that the following bills were either not received or remained unpaid on April 30. Give the entry to record them so that the accrued expenses may be considered as charges for the month: telephone bill, \$7.75; electric-light bill, \$21.38; freight out, \$12.50. What entry would be made when these accrued items were paid?

11. Explain the difference between the strictly cash basis of keeping books and the strictly accrual basis. -

Exercise 104. Written

REVIEW

From the following trial balances and notations, prepare

- (a) the profit and loss statement;
- (b) the balance sheet;
- (c) the adjusting and closing entries.

1

Torbert & Dodge

TRIAL BALANCE

May 31, 19—

Cash	\$1,810.00	
Notes Receivable	856.45	
Accounts Receivable	3,276.85	
Merchandise Inventory, May 1	4,146.75	
Land	2,000.00	
Building	6,500.00	
Furniture and Furnishings	450.00	
Auto Truck	475.25	
Notes Payable		\$1,243.45
Accounts Payable		2,750.05
R. H. Torbert, Investment		7,500.00
R. H. Torbert, Drawing	98.60	
Jas. A. Dodge, Investment		11,250.00
Jas. A. Dodge, Drawing	115.90	
Merchandise Sales		6,375.00
Merchandise Discount on Purchases		30.90
Interest Income		14.50
Merchandise Purchases	8,947.55	
Salaries	417.00	
Sundry General Expense	17.55	
Merchandise Discount on Sales	21.20	
Interest Expense	30.80	
	<u>\$29,163.90</u>	<u>\$29,163.90</u>

Notations:

Merchandise Inventory, May 31	\$7,850.00
Depreciation on building, 2 % per year	
Depreciation on furniture and furnishings, 5 % per year	
Depreciation on auto truck, 20 % per year	
Accrued Expenses	
Freight and Cartage on Purchases	21.00
Salaries	100.00
Freight and Cartage on Sales	32.00
Unpaid Telephone Bill	4.50

2

Rowe & Blake

TRIAL BALANCE

March 31, 19—

Cash	\$1,446.65	
Notes Receivable	512.90	
Accounts Receivable	389.05	
Merchandise Inventory, March 1	2,173.67	
Land	600.00	
Buildings	2,223.65	
Reserve for Depreciation, Buildings		\$88.95
Furniture and Furnishings	428.60	
Reserve for Depreciation, Furn. and Furn.		83.72
Unexpired Insurance	108.00	
Office Supplies Inventory	46.00	
Notes Payable		880.25
Accounts Payable		726.65
Accrued Property Taxes		120.00
F. D. Rowe, Investment		3,000.00
F. D. Rowe, Drawing	200.00	
A. B. Blake, Investment		3,000.00
A. B. Blake, Drawing	150.00	
Merchandise Sales		3,800.14
Sales Returns and Allowances	67.15	
Merchandise Discount on Purchases		27.80
Interest Income		6.00
Merchandise Purchases	2,985.40	
Purchases Returns and Allowances		58.60
Freight and Cartage In	80.00	
Salaries	300.00	
Repairs to Buildings	52.24	
Merchandise Discount on Sales	24.00	
Interest Expense	4.80	
	<u>\$11,792.11</u>	<u>\$11,792.11</u>

Notations:

Merchandise Inventory, March 31	\$2,585.00
Insurance for the month	9.00
Office Supplies Inventory	28.00
Estimated taxes for the month	60.00
Depreciation on buildings, 2 % per year	
Depreciation on furniture and furnishings, 10 % per year	
Accrued Items	
Accrued Interest on Notes Receivable	2.50
Accrued Salaries	100.00
Accrued Interest on Notes Payable	3.00

3

Merritt & Paton

TRIAL BALANCE

July 31, 19—

Cash	\$1,456.17	
Notes Receivable	800.00	
Accounts Receivable	532.75	
Merchandise Inventory, July 1	2,630.60	
Land	2,000.00	
Building	4,532.00	
Furniture and Furnishings	632.21	
Auto Truck	1,365.60	
Office Supplies Inventory	15.00	
Notes Payable		\$756.25
Accounts Payable		962.25
Jas. L. Merritt, Investment		8,000.00
Jas. L. Merritt, Drawing	111.80	
H. J. Paton, Investment		6,500.00
H. J. Paton, Drawing		40.00
Merchandise Sales		5,190.00
Merchandise Discount on Purchases		35.65
Interest Income		25.55
Merchandise Purchases	7,007.24	
Salaries	373.35	
Sundry General Expense	14.23	
Merchandise Discount on Sales	21.00	
Interest Expense	17.75	
	<u>\$21,509.70</u>	<u>\$21,509.70</u>

Notations:

Merchandise Inventory, July 31	\$5,675.00
Office Supplies Inventory	21.10
Depreciation on building, 1 % per year	
Depreciation on furniture and furnishings, 6 % per year	
Depreciation on auto truck, 20 % per year	
Accrued Expenses	
Unpaid Telephone Bill	11.00
Unpaid Light Bill	4.00
Unpaid Salaries	110.00
Office Supplies, Unpaid Bill	16.25

The unpaid office-supplies bill may be debited to *Office Supplies Inventory* and credited to *Accrued Expenses*. Then the difference between the total debited to *Office Supplies Inventory* and the inventory value at the end of the year will be transferred from the *Office Supplies Inventory* account to the *Office Supplies* account.

4

John S. Gray

TRIAL BALANCE

Aug. 31, 19—

Cash	\$1,671.55	
Notes Receivable	739.75	
Accounts Receivable	1,574.70	
Merchandise Inventory, Aug. 1	2,400.00	
Furniture and Furnishings	445.00	
Reserve for Depreciation, Furn. and Furn.		\$44.50
Auto Truck	1,200.00	
Reserve for Depreciation, Auto Truck		200.00
Unexpired Insurance	60.00	
Office Supplies Inventory	52.00	
Notes Payable		626.70
Accounts Payable		735.25
John S. Gray, Investment		7,500.00
John S. Gray, Drawing	75.00	
Merchandise Sales		8,448.02
Sales Returns and Allowances	71.30	
Merchandise Discount on Purchases		96.50
Interest Income		7.41
Merchandise Purchases	8,572.23	
Purchases Returns and Allowances		78.80
Freight and Cartage In	170.00	
Rent Expense	150.00	
Salaries	350.00	
Freight Out	115.30	
Merchandise Discount on Sales	85.60	
Interest Expense	4.75	
	<u>\$17,737.18</u>	<u>\$17,737.18</u>

Notations:

Merchandise Inventory, Aug. 31	\$3,880.00
Insurance for the month	5.00
Office Supplies Inventory	55.00
Depreciation on furniture and furnishings, 10 % per year	
Depreciation on auto truck, 25 % per year	
Accrued Items	
Freight and Cartage In	9.80
Salaries	65.00
Unpaid Office Supplies Bill	11.50
Accrued Interest on Notes Receivable	2.40
Accrued Interest on Notes Payable	1.25

CHAPTER XXIX

THE WORKING SHEET

On pages 43 and 44 a six-column working sheet was described and illustrated. It was there stated that the working sheet was used for obtaining quickly all data necessary for making a correct profit and loss statement and an accurate balance sheet.

The student should refer to these pages to be certain that the use of the working sheet is thoroughly understood.

In this chapter an eight-column working sheet is illustrated, the additional two columns appearing immediately after the trial-balance columns and being used for adjusting entries. Many of the new accounts which have been described, studied, and used since Chapter V are used in the illustration presented herewith, so that the student may see exactly how they would appear in an eight-column working sheet.

The sectional and columnar headings of the eight-column working sheet are as follows:

Trial Balance	Profit and Loss ¹
1. Debits	5. Expense
2. Credits	6. Income
Adjustments	Balance Sheet
3. Debits	7. Assets
4. Credits	8. Liabilities and Proprietary Interest

The columns provided for recording the various debit and credit amounts involved in the adjusting entries assure the fact that all the information which later is to be used in making the statements and the regular adjusting journal entries is available on the one sheet. Since the various adjustments may be so easily and quickly checked with all the figures on one sheet, the task of preparing accurate statement data is facilitated.

Amounts to be used in making the closing entries are not placed in the Adjustments columns, but are extended into the Expense and Income columns. If both adjusting and closing entries were entered in the Adjustments columns, it is apparent that there would be no income and expense accounts open to extend into the Expense and Income columns, and thus one of the purposes of preparing a working sheet — that of securing data for the profit and loss statement — would be defeated.

¹ The sectional heading *Profit and Loss* is not inserted in the model.

The following trial balance taken from the books of Wm. Mann on June 30, 19—, and notations are used as the basis for illustrating the compilation of an eight-column working sheet:

Wm. Mann

TRIAL BALANCE

June 30, 19—

1 Cash	\$1,245	
2 Notes Receivable	1,300	
2 Accounts Receivable	2,700	
3 Merchandise Inventory, June 1	7,835	
4 Land	1,000	
5 Building	10,000	
5 Reserve for Depreciation, Building		\$300
6 Furniture and Furnishings	3,600	
6 Reserve for Depreciation, Furn. and Furn.		360
7 Auto Trucks	1,800	
7 Reserve for Depreciation, Auto Trucks		600
8 Unexpired Insurance	240	
9 Office Supplies Inventory	180	
10 Notes Payable		1,500
10 Accounts Payable		1,000
11 Wm. Mann, Investment		22,000
11 Wm. Mann, Drawing		480
12 Merchandise Sales		24,275
12 Sales Returns and Allowances	350	
13 Interest Income		15
14 Merchandise Purchases	17,380	
14 Purchases Returns and Allowances		275
15 Salaries	2,960	
15 Repairs to Building	125	
15 Sundry General Expense	75	
16 Interest Expense	15	
	<u>\$50,805</u>	<u>\$50,805</u>

Notations:

Merchandise Inventory, June 30	\$6,590
Insurance for the month	10
Office Supplies Inventory	160
Depreciation on building, 3 % per year	
Depreciation on furniture and furnishings, 10 % per year	
Depreciation on auto trucks, $33\frac{1}{3}$ % per year	
Accrued Interest on Notes Receivable	6
Accrued Salaries	150
Unpaid Telephone Bill	12
Unpaid Light Bill	18
Accrued Interest on Notes Payable	5

WM. MANN
Working Sheet
June 30, 19—

F.		TRIAL BALANCE		ADJUSTMENTS		EXPENSE	INCOME	BALANCE SHEET	
		Debit	Credit	Debit	Credit			Assets	Liab. and Prop. Int.
1	Cash	1,245						1,245	
2	Notes Receivable	1,300						1,300	
3	Accounts Receivable	2,700						2,700	
4	Merchandise Inventory, June 1	7,835		6,590 (d)	7,835 (c)			2,500	
5	Land	1,000						6,590	
6	Building	10,000						1,000	
7	Reserve for Depreciation, Building		300		25 (e)			10,000	325
8	Furniture and Furnishings	3,600						3,600	
9	Reserve for Depreciation, Furn. and Furn.		360		30 (e)				390
10	Auto Trucks	1,800						1,800	
11	Reserve for Depreciation, Auto Trucks		600		50 (e)				650
12	Unexpired Insurance	240			10 (f)			230	
13	Office Supplies Inventory	180			20 (g)			160	
14	Notes Payable		1,500						1,500
15	Accounts Payable		1,000						1,000
16	Wm. Mann, Investment		22,000						22,000
17	Wm. Mann, Drawing		24,480						24,480
18	Merchandise Sales		24,275	350 (a)			23,925		
19	Sales Returns and Allowances								
20	Interest Income	350			350 (a)				
21	Merchandise Purchases		15						
22	Purchases Returns and Allowances	17,380		7,835 (e)		18,350			
23	Salaries	2,960	275	275 (e)					
24	Repairs to Building	125		150 (e)		3,110			
25	Sundry General Expense	75		30 (f)		125			
26	Interest Expense	15		5 (k)		105			
27	Depreciation	50,805	50,805			20			
28	Insurance								
29	Office Supplies			105 (e)		105			
30	Accrued Interest on Notes Receivable			10 (f)					
31	Accrued Salaries			20 (g)		20			
32	Accrued Expenses			6 (h)		24,845		6	
33	Accrued Interest on Notes Payable							28,631	150
34	Net Profit								30
35									5
36									26,530
37									2,101
38				15,376	15,376	2,101		28,631	28,631
39						23,946	23,946		

The adjusting entries in regular journal form (explanations omitted) giving effect to the data shown in the notations and recorded in the Adjustments columns are as follows:

<i>a.</i> Merchandise Sales	\$350	
Sales Returns and Allowances		\$350
<i>b.</i> Purchases Returns and Allowances	275	
Merchandise Purchases		275
<i>c.</i> Merchandise Purchases	7835	
Merchandise Inventory		7835
<i>d.</i> Merchandise Inventory	6590	
Merchandise Purchases		6590
<i>e.</i> Depreciation	105	
Reserve for Depreciation, Building		25
Reserve for Depreciation, Furn. and Furn.		30
Reserve for Depreciation, Auto Trucks		50

The notations state the annual rates of depreciation which would result in the following annual and monthly charges for depreciation:

	ANNUAL DEPRECIATION	MONTHLY DEPRECIATION
Building	\$300	\$25
Furniture and Furnishings	360	30
Auto Trucks	600	50

The total monthly depreciation charge is therefore \$105.

The amounts reserved for each of the three assets are credited in the Adjustments column to the respective accounts appearing in the trial balance.

<i>f.</i> Insurance	\$10	
Unexpired Insurance		\$10
<i>g.</i> Office Supplies	20	
Office Supplies Inventory		20
<i>h.</i> Accrued Interest on Notes Receivable	6	
Interest Income		6
<i>i.</i> Salaries	150	
Accrued Salaries		150
<i>j.</i> Sundry General Expense	30	
Accrued Expenses		30
<i>k.</i> Interest Expense	5	
Accrued Interest on Notes Payable		5

Note that the names of accounts brought into use in making the adjusting entries, and not appearing in the trial balance as taken from the ledger, are listed below the accounts of the trial balance. The amounts of such accounts are extended into the appropriate columns in exactly the same way as trial-balance items.

In order that the student may have a guide to use in the compilation of such working sheets as are here illustrated, the disposition of each account appearing in the trial balance is stated, and also the disposition of the items given in the notations to the trial balance.

The trial-balance amounts for the *Cash*, *Notes Receivable*, and *Accounts Receivable* accounts are not affected by any of the notations and, since they are assets of the business, they are extended directly into the Assets column.

The *Merchandise Inventory* account appearing in the trial balance is the inventory of June 1 and is transferred to the *Merchandise Purchases* account by an adjusting entry (c). The June 30 inventory, appearing as a debit in the Adjustments section, is extended into the Assets column, for it represents the value of merchandise on hand at the close of the fiscal period.

The trial-balance amounts for the *Land* and *Building* accounts are extended into the Assets column.

The *Reserve for Depreciation, Building*, item appears in the trial balance as \$300, but is extended into the last column for the sum of this amount and the current addition of \$25 to the account.

The trial-balance amount for the *Furniture and Furnishings* account is extended into the Assets column.

The *Reserve for Depreciation, Furniture and Furnishings*, item appears in the trial balance as \$360, but is extended into the last column for the sum of this amount and the current addition of \$30 to the account.

The trial-balance amount for the *Auto Trucks* account is extended into the Assets column.

The *Reserve for Depreciation, Auto Trucks*, item appears in the trial balance as \$600, but is extended into the last column for the sum of this amount and the current addition of \$50 to the account.

The *Unexpired Insurance* account appears in the trial balance as \$240, but it is credited with \$10, the cost of insurance for the month, in the Adjustments section, so that the difference between these amounts, \$230, is extended into the Assets column.

The *Office Supplies Inventory* item appears in the trial balance as \$180, but the credit of \$20 in the Adjustments section indicates that the difference between these amounts, \$160, is to be extended into the Assets column.

The amounts given in the trial balance for *Notes Payable*, *Accounts Payable*, *Wm. Mann, Investment*, and *Wm. Mann, Drawing*, are extended into the last column of the working sheet because they are credits in the trial balance and are not affected by any of the notations.

Some bookkeepers prefer not to extend the *Drawing* account balance until after the net profit or loss has been determined, and then it is included in this account rather than as a separate item.

The amount to the credit of *Merchandise Sales* in the trial balance less the amount of *Sales Returns and Allowances* is extended into the Income column.

The *Sales Returns and Allowances* account is transferred to the *Merchandise Sales* account by an adjusting entry, *a*, so that the net sales of the period may be shown as income.

The *Interest Income* item appears in the trial balance as \$15, but an additional credit of \$6 is made to this account in the Adjustments section, so the amount extended into the Income column is the sum of these two items, \$21.

The amount debited to *Merchandise Purchases* in the trial balance plus the opening inventory (debited in the Adjustments section) minus the closing inventory and the *Purchases Returns and Allowances* (credited in the Adjustments section) is extended into the Expense column.

The *Purchases Returns and Allowances* account is transferred to the *Merchandise Purchases* account by an adjusting entry, *b*, so that the net purchases of the period may be obtained.

The amount extended into the Expense column for *Salaries* is \$3110, the sum of the amount appearing in the trial balance and the accrued-salary item.

The amount debited to *Repairs to Building* is extended into the Expense column.

The amount extended into the Expense column for *Sundry General Expense* is \$105, the sum of the amount appearing in the trial balance and the accrued-sundry-expense items.

The *Interest Expense* item appears in the trial balance as \$15, but an additional debit of \$5 was made in the Adjustments section, so the amount extended into the Expense section is the sum of these two items, \$20.

The amounts debited to *Depreciation*, *Insurance*, and *Office Supplies* in the Adjustments section are extended into the Expense column, since they represent the expenses for the month for these three items.

The amount debited to *Accrued Interest on Notes Receivable* in the Adjustments section is extended into the Assets column, since it represents an asset of the business on June 30.

The amounts credited to *Accrued Salaries*, *Accrued Expenses*, and *Accrued Interest on Notes Payable* in the Adjustments section are extended into the last column, since they represent liabilities of the business on June 30.

Each account debited in the trial balance or in the Adjustments section must be extended into either the Expense or the Assets column.

Each account credited in the trial balance or in the Adjustments section must be extended into either the Income or Liabilities and Proprietary Interest column.

The Expense, Income, Assets, and Liabilities and Proprietary Interest columns are now added and the totals inserted in small pencil figures as indicated on the model. The sum of the footings of the

Expense column and of the Assets column should equal the sum of the footings of the Income column and the Liabilities and Proprietary Interest column. This is a valuable check on the accuracy of the work and should always be used before proceeding further.

The amount of the net profit is found by subtracting the footing of the Expense column from the footing of the Income column. The words *Net Profit* are written in the Account Name column, and the amount is entered in the Expense column and in the Liabilities and Proprietary Interest column.

If the footing of the Expense column exceeds the footing of the Income column, a net loss occurs. The words *Net Loss* would then be written in the Account Name column, and the amount would be entered in the Income column and in the Assets column. In the statement the net loss would of course appear in the *Proprietor's Drawing* account, a proprietary-interest item.

The columns are then ruled as shown in the model.

The above explanations indicate the great amount of time saved by using a working sheet for the rapid compilation of statement data.

The profit and loss statement for June, 19—, and the balance sheet as of June 30, 19—, as compiled from the above working sheet, would appear as follows:

WM. MANN

Profit and Loss Statement
For the Month of June, 19—

Merchandise Sales	24,275	—	
Less Sales Returns and Allow.	350	—	23,925 —
Merchandise Inventory, June 1	7,835	—	
Merchandise Purchases \$17,380			
Less Purch. Ret. and Allow. 275	17,105	—	
	24,940	—	
Merchandise Inventory, June 30	6,590	—	
Cost of Merchandise Sold			18,350 —
Gross Profit on Sales			5,575 —
OPERATING EXPENSES			
Salaries	3,110	—	
Depreciation	105	—	
Repairs to Building	125	—	
Office Supplies	20	—	
Insurance	10	—	
Sundry General Expense	105	—	3,475 —
Net Operating Profit			2,100 —
Other Income			
Interest Income	21	—	
Other Expense			
Interest Expense	20	—	1 —
Net Profit for June			2,101 —

THE WORKING SHEET

327

WM. MANN

Balance Sheet

June 30, 19—

ASSETS			
Cash		1,245	—
Notes Receivable		1,300	—
Accounts Receivable		2,700	—
Merchandise Inventory		6,590	—
Land		1,000	—
Building	\$10,000		
Less Res. for Depr., Bldg.	325	9,675	—
Furniture and Furnishings	\$3,600		
Less Res. for Depr., F. and F.	390	3,210	—
Auto Trucks	\$1,800		
Less Res. for Depr., Auto Tr.	650	1,150	—
Accrued Interest on Notes Receivable		6	—
Unexpired Insurance		230	—
Office Supplies Inventory		160	—
Total Assets			27,266 —
LIABILITIES			
Notes Payable		1,500	—
Accounts Payable		1,000	—
Accrued Salaries		150	—
Accrued Expenses		30	—
Accrued Interest on Notes Payable		5	—
Total Liabilities			2,685 —
PROPRIETARY INTEREST			
Wm. Mann, Investment		22,000	—
Wm. Mann, Drawing			
Cr. Balance	\$480		
Net Profit	2,101	2,581	—
Proprietary Interest, June 30			24,581 —

Exercise 105. Written

WORKING SHEETS

Prepare eight-column working sheets for the following :

1. Problem 1 in Exercise 104.
2. Problem 2 in Exercise 104.

Exercise 106. Oral

TOPICS FOR CLASS DISCUSSION

1. Explain the purpose of a working sheet.
2. Explain the use of the Adjustments columns on an eight-column working sheet.

3. Why are closing entries not extended into the Adjustments columns?

4. Refer to the working sheet on page 322 and explain

(a) the reason for each adjusting entry;

(b) why certain amounts are extended into the Expense and Income columns;

(c) why certain amounts are extended into the Assets and Liabilities and Proprietary Interest columns.

CHAPTER XXX

C.O.D. SHIPMENTS

Necessity for C.O.D. Shipments. Many shippers do not know the financial responsibility of some of their buyers, or the credit standing of the buyers may be very limited, or even poor, so that shippers do not care to give the buyer possession of the goods until they are paid for. In order to avoid delay in filling orders from such buyers, the goods are shipped, but payment is demanded before they are delivered to the person ordering. Such shipments, in which goods shipped are to be paid for at delivery, are said to be shipped C.O.D. (cash, or collect, on delivery). Goods may be shipped C.O.D. by express, parcel post, freight, or by private delivery.

C.O.D. Account. C.O.D. sales are recorded in a *C.O.D.* account in the sales ledger. The usual sales entry is made in the sales journal, where the *C.O.D.* account, followed by the name of the buyer in parenthesis, is written in the Account Debit column. The item is posted to the sales ledger under the *C.O.D.* account the same as any other sale, except that the name of the buyer is written in the Explanation column. When cash is received in payment of the shipment, it is entered in the cash journal with the *C.O.D.* account and the name of buyer in parenthesis credited.

To illustrate a C.O.D. shipment by express, assume that Geo. A. Hart, Erie, Pa., orders goods amounting to \$120 of Morgan & Co. and requests that they be sent by express C.O.D.

The sales-journal entry would appear as follows :

DATE		F.	ACCOUNT DEBIT	ADDRESS	TERMS	MDSE. SALES, CR.		TOTAL
July	10		C. O. D. (Geo. A. Hart)	Erie, Pa.		120	—	

A *C.O.D.* envelope is attached to the goods, showing on the outside the amount to be collected by the representative of the express company and containing inside a receipted invoice for the merchandise.

The sales-journal entry would appear in the sales ledger as follows :

C. O. D.

July	10	Geo. A. Hart S. J.	18	120	—						
------	----	--------------------	----	-----	---	--	--	--	--	--	--

Before the goods are delivered to Mr. Hart, the representative of the express company would collect the amount due, plus the express charges, and the amount of the invoice would be remitted by express money order by the agent of the express company to Morgan & Co.

If the charges for the return of the money are to be collected from the purchaser, the shipper must so indicate on the *C.O.D.* envelope. Otherwise the charge for issuing the money order will be deducted by the express agent at point of delivery from the amount of the invoice, and the shipper therefore does not net the full selling price.

The following entry would then be made on the cash-received side of the cash journal:

DATE	F.	ACCOUNT CREDIT	EXPLANATION	NET CASH	MDSE. DISC. ON SALES	ACCTS. REC.	GENERAL LEDGER CREDITS
July 14		C. O. D. (Geo. A. Hart)	Inv. 7/10	120 —		120 —	

This entry would be posted to the credit of the *C.O.D.* account and would be written on the same line as the debit to this particular customer.

After this entry is posted to the sales ledger, the *C.O.D.* account would appear as follows:

C. O. D.

July 10	Geo. A. Hart S.J.	18	120 —	July 14	Geo. A. Hart C.J.	12	120 —
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Since the names of purchasers and remitters are written in the explanation space, the names of those from whom remittances have not yet been received may be ascertained readily.

C. O. D. Shipments by Freight — Order Bill of Lading. The method of shipping goods by freight and of collecting for the shipment before delivery is commonly known among business men as shipping by *shipper's order*. The *order bill of lading*, negotiable by indorsement, is extensively used for this purpose.

On pages 160 and 161 the straight bill of lading was described and illustrated. Study the explanation again before reading the following paragraphs describing the order bill of lading.

The order bill of lading is drawn up in a set of three papers; the bill of lading itself is printed on yellow paper, and the duplicate and the triplicate are printed on blue paper.

When an order bill of lading is used, it is customary to draw a sight draft, attach it to the bill of lading, and make the collection through a bank. The name of the bank is written after *Consigned to Order of*, and the name of the consignee after *Notify*. The consignee cannot get

the bill of lading until he pays the draft, and he cannot get the goods until he surrenders the bill of lading. Goods shipped on an order bill of lading are generally debited to a *C.O.D.* account rather than debiting the shipment to the individual ordering the goods.

The collection will be made by the bank, as follows:

The bank will indorse both the draft and the bill of lading, and send them to its correspondent in the city in which the buyer resides, perhaps Springfield.

When the Springfield bank receives the draft, it will notify the buyer. If he pays it, the bank will give him the order bill of lading, which, when properly indorsed and given to the transportation company, will give him access to the goods.

Transportation companies will not deliver goods without obtaining an order bill of lading, for they would thereby render themselves liable to the shippers, should the consignee not pay for the goods.

The bank in Springfield then advises the local bank of the collection of the draft, and the local bank in turn notifies the shipper that the draft has been collected. The shipper then makes an entry debiting *Cash* and crediting *C.O.D.* in the cash journal. Collection charges made by the bank are debited to the *Collection and Exchange* account.

Exercise 107. Written

C. O. D. SALES

Use a sales journal and a cash journal (receipts side only) and record the following transactions:

Aug. 1, 19—. Shipped by express C.O.D. to L. D. Sommers, Fostoria, merchandise amounting to \$728.50.

3. Shipped by parcel post C.O.D. to K. D. Knight, Mansfield, merchandise amounting to \$310.60.

4. Received a money order from the American Express Co. for \$728.50, for goods shipped C.O.D. to L. D. Sommers.

8. Received a money order for \$310.60, in payment for goods shipped C.O.D. to K. D. Knight.

18. Shipped by parcel post C.O.D. to D. R. Sloane, merchandise amounting to \$327.60.

24. Shipped by express C.O.D. to S. K. Black, merchandise amounting to \$283.50.

26. Received a money order for \$327.60, in payment for goods shipped C.O.D. to D. R. Sloane.

28. Received a money order for \$283.50, in payment for goods shipped C.O.D. to S. K. Black.

Exercise 108. Oral

TOPICS FOR CLASS DISCUSSION

1. What is meant by the expression *C.O.D.*? Explain why merchandise is sometimes shipped *C.O.D.*
2. Explain the procedure followed in making a *C.O.D.* shipment by express and give the entries to be made on the books of the shipper when the goods are shipped and when the remittance is received.
3. Explain in detail just how and where the remittance is posted to the credit of the appropriate account.
4. Explain the procedure followed in making a *C.O.D.* shipment by freight.

CHAPTER XXXI

SET V. WHOLESALE SPORTING-GOODS BUSINESS

Object of Set. The object of this set is to illustrate the use of controlling accounts and subsidiary ledgers, accruals, special-column books of original entry, *Merchandise Trading* account, and C.O.D. shipments. The transactions occurring in a wholesale sporting-goods business, owned by a partnership, are used as the basis for the work.

Books Used. The books used are the cash journal, the purchases journal, the sales journal, the general journal, the purchases ledger, the sales ledger, and the general ledger.

Cash Journal. The cash journal used in this set is ruled the same as that described and illustrated on pages 298 and 299. Columns are provided on the debit side for Net Cash, Merchandise Discount on Sales, Accounts Receivable, and General Ledger Credits. All cash received is entered in the Net Cash column; if the amount is *not* for merchandise sold, extend the amount to the General Ledger Credits column; if the amount is for merchandise sold, the discount on the invoice is entered in the Merchandise Discount on Sales column; then the sum of the net cash and the sales discount is entered in the Accounts Receivable column.

Columns are provided on the credit side for Net Cash, Merchandise Discount on Purchases, Accounts Payable, and General Ledger Debits. All cash paid is entered in the Net Cash column; if the amount is *not* for merchandise purchased, extend the amount to the General Ledger Debits column; if the amount is for merchandise purchased, the discount on the invoice is entered in the Merchandise Discount on Purchases column; then the sum of the net cash and the purchase discount is entered in the Accounts Payable column.

When proving cash use only the Net Cash column on either side.

To post the left side of the cash journal:

Credit each amount in the Accounts Receivable column to the proper account in the sales ledger.

Credit each amount in the General Ledger Credits column to the proper account in the general ledger.

Debit the footing of the Net Cash column to the *Cash* account in the general ledger.

Debit the footing of the Merchandise Discount on Sales column to the *Merchandise Discount on Sales* account in the general ledger.

Credit the footing of the Accounts Receivable column to the *Accounts Receivable* account in the general ledger.

To post the right side of the cash journal :

Debit each amount in the Accounts Payable column to the proper account in the purchases ledger.

Debit each amount in the General Ledger Debits column to the proper account in the general ledger.

Credit the footing of the Net Cash column to the *Cash* account in the general ledger.

Credit the footing of the Merchandise Discount on Purchases column to the *Merchandise Discount on Purchases* account in the general ledger.

Debit the footing of the Accounts Payable column to the *Accounts Payable* account in the general ledger.

Refer to the model cash journal when posting.

Purchases Journal. The purchases journal used in this set is ruled the same as purchases journals used in previous sets. In posting, credit each amount in the purchases journal to the proper account in the purchases ledger. When the purchases journal is closed, the total purchases are debited to *Merchandise Purchases* and credited to *Accounts Payable* in the general ledger.

Sales Journal. The sales journal used in this set is ruled the same as the sales journals used in previous sets. In posting, debit each account in the sales journal to the proper account in the sales ledger. When the sales journal is closed, the total sales are credited to *Merchandise Sales* and debited to *Accounts Receivable* in the general ledger.

General Journal. The general journal used in this set is ruled the same as that described and illustrated on page 300.

The Purchases Ledger Debits column contains all debits to purchases-ledger accounts. The several amounts are posted separately to the debit side of the accounts in the purchases ledger, and the total is posted to the debit of *Accounts Payable* in the general ledger.

The General Ledger Debits column contains all debit items in the general journal except the purchases-ledger debits. The total of this column is not posted.

The Sales Ledger Credits column contains all credits to sales-ledger accounts. The several amounts are posted separately to the credit side of the accounts in the sales ledger, and the total is posted to the credit of *Accounts Receivable* in the general ledger.

The General Ledger Credits column contains all the items of credit in the journal except the sales-ledger credits. The total is not posted.

Purchases Ledger. The use of the purchases ledger in this set as a subsidiary ledger is the same as that described and illustrated on page 302.

Sales Ledger. The use of the sales ledger in this set as a subsidiary ledger is the same as that described and illustrated on page 301.

General Ledger. The general ledger contains all the accounts of the business not entered in the purchases ledger or in the sales ledger.

A subsidiary ledger such as the purchases ledger or the sales ledger contains a detailed record of accounts which appear in a controlling account in the general ledger.

Business Practice. No business practice is used with this set. In this set the details of purchase invoices and sales invoices are not given, totals only being used.

Opening the Ledgers. Open the following accounts in the general ledger, four to a page :

ASSETS

Cash
Notes Receivable
Accounts Receivable
Merchandise Inventory
Land
Building
Reserve for Depreciation, Building (Credit account)
Furniture and Furnishings
Reserve for Depreciation, Furniture and Furnishings (Credit account)
Auto Truck
Reserve for Depreciation, Auto Truck (Credit account)
Accrued Interest on Notes Receivable
Unexpired Insurance
Office Supplies Inventory

LIABILITIES

Notes Payable
Accounts Payable
Accrued Salaries
Accrued Expenses
Accrued Interest on Notes Payable

PROPRIETARY INTEREST

Student, Investment
Student, Drawing
F. R. Baker, Investment
F. R. Baker, Drawing
Merchandise Trading
Profit and Loss

INCOME

Merchandise Sales
Sales Returns and Allowances (Debit account)
Merchandise Discount on Purchases
Interest Income

EXPENSE

Merchandise Purchases
Purchases Returns and Allowances (Credit account)
Freight In
Salaries
Insurance
Depreciation
Repairs to Building
Delivery Expense
Office Supplies
Sundry General Expense
Merchandise Discount on Sales
Interest Expense
Collection and Exchange

Open the following accounts in the purchases ledger, four to a page :

Atlas Manufacturing Co., Buffalo, N. Y.
Chicago Sporting House, Chicago, Ill.
Morris Athletic Co., Boston, Mass.
Nelson & Co., Chicago, Ill.
Reed & Reed, Cleveland, Ohio
Spaulding & Wright, Milwaukee, Wis.
M. A. Weaver & Co., Detroit, Mich.

Open the following accounts in the sales ledger, four to a page :

L. C. Amidon, Freeport, Ill.
Beach & French, Janesville, Wis.
C. O. D.
A. R. Dorman, Des Moines, Iowa
William Fallon, Cedar Rapids, Iowa
J. L. King & Co., Davenport, Iowa
A. H. Mann, Council Bluffs, Iowa
Charles A. Robbins, St. Paul, Minn.
B. K. Rose, St. Louis, Mo.
Ed. A. Sadler, Dubuque, Iowa
William K. White & Co., Iowa City, Iowa

MEMORANDA OF TRANSACTIONS FOR AUGUST

On Aug. 1, 19—, Student and F. R. Baker form a partnership to be known as Student & Baker, for the purpose of conducting a wholesale sporting-goods business at 38 Bourne St., Des Moines, Iowa.

You are to act as office manager, taking care of the administrative work. Mr. Baker is to be responsible for the buying and selling. Three assistants have been engaged :

Ruth Morton, assistant bookkeeper, \$20 a week
Frank Jones, salesman, \$30 a week
S. Dorne, salesman, \$30 a week

You are to invest the following: Cash, \$1500; Land, \$1000; Building, \$4000.

F. R. Baker is to invest Cash, \$500; Notes Receivable, \$700; Accounts Receivable, \$1150; Merchandise, \$3400; Furniture and Furnishings, \$750; Auto Truck, \$1000. The partnership is to assume Accounts Payable of Mr. Baker amounting to \$800.

The Notes Receivable invested by Mr. Baker are as follows:

AMOUNT	INTEREST RATE	TIME	DATE	MAKER	REMARKS
\$300		60 da.	7/1	A. R. Russell	Trade Acceptance
400	6 %	60 da.	6/17	John S. Ryder	

The interest accrued on the note of John S. Ryder is to be included as part of Mr. Baker's investment.

The Accounts Receivable of \$1150 consist of accounts with B. K. Rose, St. Louis, Mo., \$350; Charles A. Robbins, St. Paul, Minn., \$600; and William Fallon, Cedar Rapids, Iowa, \$200.

The Accounts Payable of \$800 consist of accounts with the Atlas Manufacturing Co., Buffalo, N.Y., \$300; and the Chicago Sporting House, Chicago, Ill., \$500.

Profits or losses are to be distributed equally.

You are to be allowed a salary of \$150, and Mr. Baker is to be allowed a salary of \$200 a month.

Make entries in the general journal and the cash journal to record the above.

Post the opening entries to the general ledger. Debit the several accounts receivable in the sales ledger and credit the several accounts payable in the purchases ledger.

Enter the details of the notes in the note register.

Aug. 1. Take out an insurance policy on the building and store fixtures. Pay the premium for three years, \$90, by check.

1. Sell to J. L. King & Co., Davenport, Iowa, merchandise, \$400. Terms: 3/5, n/30, f.o.b. Des Moines.

2. Buy stationery and supplies for cash, \$80.

2. Receive of William Fallon his check, in payment of the balance due on Aug. 1.

3. Buy of M. A. Weaver & Co., Detroit, Mich., merchandise, \$900. Terms: 2/5, n/30, f.o.b. Detroit.

3. Pay H. Clark, agent, by check, for freight on above shipment, \$18.

4. Draw a sight draft on Charles A. Robbins in favor of ourselves for the amount owed by him on Aug. 1. Leave the draft at the City Bank for collection.

4. Buy postage stamps, \$6.

4. Sell to L. C. Amidon, Freeport, Ill., merchandise, \$1200. Terms: 30-day trade acceptance, f.o.b. Des Moines.

Send the acceptance to L. C. Amidon for acceptance.

5. Sell to A. R. Dorman, City, merchandise, \$640. Terms: 2/10, n/30.

5. Receive of B. K. Rose his check, in payment of the balance due on Aug. 1.

6. Pay M. A. Weaver & Co., by check, for the invoice of Aug. 3.

The student is expected to determine whether or not the firm is entitled to a merchandise discount.

6. Receive a check from J. L. King & Co., in payment for goods sold them on Aug. 1.

Post all books of original entry.

8. Receive from L. C. Amidon the trade acceptance drawn on him on Aug. 4, properly accepted.

8. Send the Chicago Sporting House, Chicago, Ill., our note for \$500, dated today, due in 30 da., with interest at 6%, for the amount due them on Aug. 1.

9. Buy of Reed & Reed, Cleveland, Ohio, merchandise, \$700. Terms: 3/10, n/30, f.o.b. Des Moines.

10. The City Bank reports that the draft drawn on Charles A. Robbins on Aug. 4 has been collected and the amount, less 60¢ for collection, has been credited to our account.

10. Buy of the Chicago Sporting House, Chicago, Ill., merchandise, \$360. Terms: 2/10, n/30, f.o.b. Des Moines.

10. Sell to Ed. A. Sadler, Dubuque, Iowa, merchandise, \$960. Terms: 2/10, n/30, f.o.b. Des Moines.

11. Sell to William K. White & Co., Iowa City, Iowa, merchandise, \$410. Terms: 2/10, n/30, f.o.b. Des Moines.

12. Discount at 6% at the City Bank the 60-day trade acceptance of A. R. Russell, dated July 1.

12. Return to Reed & Reed merchandise invoiced to us on Aug. 9 at \$60.

13. Pay the salaries for two weeks by check, \$160.

Post all books of original entry.

15. Sell to A. H. Mann, Council Bluffs, Iowa, merchandise, \$265. Terms: 2/10, n/30, f.o.b. Des Moines.

15. Receive of A. R. Dorman his check, in payment of invoice of Aug. 5.

15. Pay Student, \$75, and F. R. Baker, \$100, by check, to apply on their monthly salaries.

16. Buy from Spaulding & Wright, Milwaukee, Wis., merchandise, \$1400. Terms: 3/10, n/30, f.o.b. Des Moines.

16. Receive of Reed & Reed their credit memorandum.

16. Receive of John S. Ryder his check, in payment of his note dated June 17, with interest.

What entry should be made for the payment of the interest on this note?

18. Send Reed & Reed a check for \$300, to apply on the invoice of Aug. 9.

Discount is to be allowed on as much of the bill as this check will cover.

19. Sell to Brown & Harris, Boone, Iowa, merchandise, \$790.50. Terms: express C.O.D.

19. Pay the Chicago Sporting House, by check, for their invoice of Aug. 10.

20. Receive of A. H. Mann his check, in payment of invoice of Aug. 15.

20. Sell to Beach & French, Janesville, Wis., merchandise, \$620. Terms: 2/10, n/30, f.o.b. Des Moines.

20. Pay the Bond Mercantile Co., by check, for the household bill of F. R. Baker, \$48.75.

Post all books of original entry.

22. Buy of Morris Athletic Co., Boston, Mass., merchandise, \$440. Terms: 3/5, n/30, f.o.b. Des Moines.

23. Receive a money order in payment for goods shipped C.O.D. on Aug. 19 to Brown & Harris.

23. Pay by check the sight draft for \$300 drawn on us by the Atlas Manufacturing Co., in payment for the balance due them on Aug. 1.

24. Pay Spaulding & Wright, by check, for the invoice of Aug. 16.

24. Sell to L. C. Amidon, Freeport, Ill., merchandise, \$500. Terms: 2/10, n/30, f.o.b. Des Moines.

25. Buy of Nelson & Co., Chicago, Ill., merchandise, \$800. Terms: 1/30, n/60, f.o.b. Des Moines.

25. Beach & French return merchandise invoiced to them on Aug. 20 at \$180.

26. Buy of Atlas Manufacturing Co., Buffalo, N.Y., merchandise, \$680. Terms: 2/10, n/30, f.o.b. Des Moines.

27. Sell to Harper & Son, Galena, Ill., merchandise, \$450. Terms: express C.O.D.

27. Pay the salaries for two weeks, by check, \$160.

Post all books of original entry.

29. Sell to A. R. Dorman, City, merchandise, \$400. Terms: 2/10, n/30.

29. Buy of M. A. Weaver & Co., Detroit, Mich., merchandise, \$600. Terms: 2/5, n/30, f.o.b. Detroit.

29. Pay H. Clark, agent, by check, for freight on above shipment, \$14.

30. Pay K. R. Simons, by check, for repairs to the building, \$100.

31. Pay the City Garage, by check, for gasoline, oil, and repairs to delivery truck, \$37.80.

31. Pay Student and Mr. Baker, by check, for balance due on their monthly salary.

Complete the posting of the items in all books of original entry.

INVENTORIES AND NOTATIONS

Merchandise Inventory, Aug. 31	\$4198.00
Insurance for the month	2.50
Office Supplies Inventory	60.00
Depreciation on building, 3 % per year	
Depreciation on furniture and furnishings, 10 % per year	
Depreciation on auto truck, 25 % per year	
Accrued Salaries	40.00
Unpaid Light Bill	18.00
Accrued Interest on Notes Payable	1.92

Closing the Set. Close each of the books of original entry as heretofore explained and post the appropriate totals to the appropriate ledger accounts.

Take an abstract of the purchases ledger. Its total and the balance of the *Accounts Payable* controlling account in the general ledger must be in agreement.

Take an abstract of the sales ledger. Its total and the balance of the *Accounts Receivable* controlling account in the general ledger must be in agreement.

If the abstracts are correct, have them approved by the instructor and then prepare a trial balance of the general ledger.

After approval by the instructor, record both the trial balance and the abstracts in Blank A on the pages indicated by the index.

Prepare the profit and loss statement and balance sheet. Record them in Blank A on the pages indicated by the index.

Close the ledger.

Be certain to make and post the adjusting entries.

Rule all accounts that balance in the general ledger and in the subsidiary ledgers.

Hand all books to the instructor for examination and approval.

CHAPTER XXXII

CONSIGNMENTS AND TRADE DISCOUNTS

Consignments. All merchandise bought or sold up to this point has been debited to *Merchandise Purchases* or credited to *Merchandise Sales*. The merchandise purchased became the property of the buyer until he sold it to a customer.

In many lines it is the practice of the manufacturer, wholesaler, or other shipper to place merchandise in a business, to be sold for him, with the understanding that a specified percentage of the selling price is to be paid for selling the goods. The business does not become the owner of the goods, nor incur any liability in connection with them until they are sold. Then the business becomes indebted to the manufacturer, wholesaler, or other shipper for the amount of the selling price, less the commission and any other charges.

Merchandise received to be sold for another at a specified percentage for selling is called *consignment merchandise*, or a *consignment*. The shipper or owner of the merchandise is called the *consignor*. The business receiving the merchandise is called the *consignee*. The specified percentage of selling price paid to the consignee for selling is called a *commission*.

The important difference between the ordinary purchase of merchandise and a consignment may be summarized as follows :

PURCHASE	CONSIGNMENT
1. Title passes to purchaser.	1. Title does not pass to consignee ; remains in consignor.
2. Obligation to pay for goods when received or within a specified time.	2. Obligation to pay for goods when sold.
3. Purchaser expects to realize a profit on goods.	3. Consignee receives merely a commission for selling.

It is further understood, unless directly specified to the contrary, that all direct expenses, such as freight, cartage, insurance, storage, etc., incurred in handling the consignment are to be deducted from the receipts from sales and that the consignee has a claim on the consigned merchandise for these charges. The price at which consigned merchandise is to be sold may be left to the consignee, or it may be fixed by the consignor at the time of the shipment.

Accounts for Consignments In. In accounting for merchandise received on consignment, to be sold for the shipper on a commission basis, accounts with *Consignment In* and *Commission Earned* are used.

A *Consignment In* account is usually set up for each consignment received; it is numbered and also gives the name of the consignor. Thus, if the first consignment were received from J. B. Barker & Co., the account title would read as follows:

Consignment In, No. 1 — J. B. Barker & Co.

The *Consignment In* account is debited with all charges for freight, drayage, insurance, storage, etc. paid by the consignee on account of this particular consignment, with the commission earned by selling the merchandise (credited to *Commission Earned* as described below), and with the remittances made to the consignor in payment of the goods sold, less the commission. The *Consignment In* account is credited for the gross sales of consignment merchandise.

A consignment in should not be included in the merchandise inventory of the consignee, because the merchandise does not belong to him.

The *Commission Earned* account is credited with the commissions earned on the gross sales of consignment merchandise, the corresponding debit being made to the appropriate *Consignment In* account. The *Commission Earned* account is closed into the *Profit and Loss* account.

When a consignee sells goods for the shipper, or principal, he renders a statement called an *account sales*, which shows the details of the sale: the quantity, description, and unit price at which the merchandise was sold; the *gross proceeds*, or the amount received by the consignee; the charges connected with the sale, including the commission; and the *net proceeds*, or the difference between the gross proceeds and the sum of the charges, which are sent to, or credited to, the principal.

To illustrate the use of the accounts kept in connection with consignments, assume that N. Frey & Co. place a line of tennis rackets in the store of Lewis & Co. to be sold on consignment. Lewis & Co. are to be allowed a commission of 10% for selling and are to render an account sales monthly to N. Frey & Co.

April 2. Consignment merchandise is received from N. Frey & Co. and checked with the accompanying list.

No formal entry is made on the books of Lewis & Co., because they do not acquire title to the goods. No value is received therefore, nor is there any value parted with, because Lewis & Co. incur no liability for the payment of the goods until they are sold.

A memorandum should be kept of the date, quantity, and description of each lot of consigned merchandise received.

3. Lewis & Co. pay cash, for freight on the shipment from N. Frey & Co., \$6.

The entry in the cash journal would be to debit *Consignment In, No. 1 — N. Frey & Co.*

5. Lewis & Co. pay cash, for insurance on this consigned merchandise, \$2.

Debited in the cash journal to *Consignment In, No. 1 — N. Frey & Co.*

30. The sales of rackets during the month amounted to \$660.

Credited in the sales journal to *Consignment In, No. 1 — N. Frey & Co.*

If consignment merchandise is sold in addition to the regular owned merchandise, the sales journal usually has a special column headed "Consignment Sales, Cr.," so that the sales of such shipment will not be entered in the regular Sales column. The following shows one ruling of such a sales journal :

Sales Journal

DATE	F.	ACCOUNT DEBIT	ADDRESS	TERMS	TOTAL	MERCHANDISE SALES CREDIT	CONSIGNMENT SALES CREDIT
Apr. 3		S. J. Peterson			500—	500—	
5		A. B. Hall			120—		120—
9		J. A. White			250—		250—
13		M. F. Homer			460—	460—	
17		R. A. Lester			720—	720—	
20		E. M. Terry			665—	375—	290—
					2715—	2055—	660—

A SPECIAL-COLUMN SALES JOURNAL

The total of the Merchandise Sales column is credited to the *Merchandise Sales* account; if all consignment merchandise is from one consignment, as in the above illustration, the total of the Consignment Sales column is credited to the *Consignment In, No. 1*, account; if the consigned merchandise is from more than one consignment, the total of this column cannot be posted; instead, individual sales must be posted to the credit of the appropriate consignment accounts.

If a special-column sales journal is not in use, consignment sales are to be recorded in the general journal.

The entry to record the commission earned by Lewis & Co. would be made in their general journal, as follows :

Consignment In, No. 1 — N. Frey & Co.	66	—		
Commission Earned			66	—
To record 10 % commission earned on sale of rackets, \$660, for N. Frey & Co.				

After the above entries are posted, the accounts with *Consignment In, No. 1—N. Frey & Co.* and *Commission Earned* would appear as follows:

CONSIGNMENT IN, NO. 1—N. FREY & CO.

Apr.	3	C. J.	52	6	—	Apr.	30	S. J.	16	660	—
	5	C. J.	52	2	—						
	30	G. J.	10	66	—						

COMMISSION EARNED

						Apr.	30	G. J.	10	66	—
--	--	--	--	--	--	------	----	-------	----	----	---

On May 1 an account sales similar to the following would be made up by Lewis & Co. and sent to N. Frey & Co. with a remittance for \$586, the net proceeds of the sales of consignment merchandise for the month, as shown by the *Consignment In, No. 1*, account.

The remittance would be entered in the cash journal and would be debited to *Consignment In, No. 1—N. Frey & Co.*

Boston, Mass., May 1, 19--.

LEWIS & COMPANY
 SPORTING GOODS SHOP
 215 STATE ST.

Sold for account of

N. Frey & Co.
Attleboro, Mass.

Consignment Received 4/2/--.

100 - #87897 Rackets @ \$4	\$400	00		
10 - #00392 Rackets @ 8	80	00		
30 - #09743 Rackets @ 6	180	00		
Gross Proceeds			\$660	00
Deduct: Charges				
Freight Paid	\$6	00		
Insurance	2	00		
Commission 10%	66	00	74	00
Net Proceeds - Check Inclosed			\$586	00

After the cash-journal entry recording the remittance is posted, the *Consignment In*, No. 1 — N. Frey & Co. account would appear as follows :

CONSIGNMENT IN, NO. 1—N. FREY & CO.

Apr.	3	C.J.	52	6	—	Apr.	30	S.J.	16	660	—
	5	C.J.	52	2	—						
	30	G.J.	10	66	—						
May	1	C.J.	52	586	—						
				660	—					660	—

The *Commission Earned* account would be closed into the *Profit and Loss* account, and in the profit and loss statement it would appear after the gross profit on merchandise sold.

Exercise 109. Written

CONSIGNMENTS

1. The Johns Co. ships A. B. Cairns merchandise on consignment. A selling commission of 15% is to be allowed, and an account sales is to be rendered weekly.

A. B. Cairns paid the following charges: freight, \$21.10; cartage, \$3; insurance, \$1.50; storage, \$5. During the first week he sold \$825 of the merchandise.

Make the entries for these items in Mr. Cairns's books.

Show the *Consignment In* and *Commission Earned* accounts as they would appear in Mr. Cairns's ledger, amounts only. Prepare the account sales which Mr. Cairns should send to the Johns Co. at the close of the first week with his remittance for the net proceeds.

2. The School Book Store sells certain merchandise on consignment for Wood & Hill. A commission of 20% is given on all sales, and freight is the only other expense item allowed by the consignors. The freight on the first shipment was \$27.50, and at the end of the first month, when an account sales was rendered, the sales were found to total \$1025. Show the *Consignment In* and *Commission Earned* accounts (amounts only) as they would appear in the Book Store's ledger, after a check had been sent Wood & Hill for the net proceeds.

3. Myer & Co. receive consignment merchandise from Jackson & Co., to be sold on a $12\frac{1}{2}\%$ commission basis, account sales to be rendered monthly. The freight on the shipment is \$15.75; cartage, \$2; insurance, \$2. The sales for the first month are \$1795. Enter each item involved in these transactions in an appropriate book of original entry,

post to the proper accounts affecting consignments, render the account sales to Jackson & Co., and give the entries to close the consignment accounts. Post, rule, and foot the consignment accounts.

Trade Discounts. Trade discount is a deduction, generally allowed only to dealers, from a published list price. Trade discount is always deducted before the invoice cost is entered in the books. Merchandise discount, if one is allowed, is always calculated on the invoice cost after the trade discount has been deducted. The use of trade discount permits a manufacturer, for example, to issue only one catalogue to serve both the wholesale and the retail trade. The prices listed are generally the retail prices, and the dealer is supplied with a separate sheet, called a *discount sheet*, which shows the trade discounts for the various articles.

More important, however, is the opportunity thus afforded of changing the selling price of an article to meet fluctuations in market prices by altering the trade discount instead of changing the list price. It is thus unnecessary to reprint an entire catalogue, but instead new discount sheets are mailed to the dealer, who inserts them in his catalogue or files them for reference.

To illustrate, the list price of an article in a wholesaler's catalogue may be \$50, less a trade discount of 50 %, 20 %, and 10 %. The actual invoice cost, the amount at which it is entered in the books, is \$18, obtained as follows: \$50 (list price) less 50 % = \$25; \$25 less 20 % = \$20; \$20 less 10 % = \$18, the selling price of the article to the retailer.

If it became necessary to increase the selling price of the article to the retailer to \$20, the list price of \$50 may be retained but the percentages of the trade discount changed to 50 % and 20 %.

Exercise 110. Written

TRADE DISCOUNTS

1. The catalogue price of a library table is \$90; the trade discount is 50 %, $33\frac{1}{3}$ %, and 10 %. What is the invoice cost?
2. Make the entry in the purchases journal of Wm. Bond to record the purchase from Lowe & Co. on April 3 of ten of these tables subject to the trade discounts given in problem 1. Terms: 2/10, n/30.
3. Make the entry in the cash journal of Wm. Bond to record the payment on April 10 for the purchase in problem 2.
4. Make the entry in the sales journal of A. L. Logan to record the sale to Dunn & Co. on April 11 of six dining-room sets listed at \$500, less 40 %, 20 %, and 10 %. Terms: 3/10, n/60.

5. Make the entry in the cash journal of A. L. Logan to record the receipt on April 18 of payment from Dunn & Co. for the sale in problem 4.

6. The trade discount allowed on a chair listed at \$40 is 75 %, 20 %, 10 %, and 5 %. What is the invoice cost ?

7. What would be the invoice cost of the chair in problem 6 if the trade discount were changed to 75 %, 10 %, 10 %, and 5 % ?

8. Make the entry in the sales journal of Lehan & Co. to record the sale to D. L. Baker on April 20 of six of the chairs in problem 7.

9. Make the entry in the purchases journal of T. R. Hogan to record a purchase from Johnson & Co. of the following: looseleaf supplies listed at \$155 less 40 %; automatic pencils listed at \$72 less 30 % and 10 %. Terms: 2/10, n/30.

10. Make the entry in the cash journal of T. R. Hogan to record the payment of the purchase in problem 9 within 10 da.

Exercise 111. Oral

TOPICS FOR CLASS DISCUSSION

1. Define the following terms: *consignment*, *consignor*, *consignee*, *commission*.

2. Distinguish between a purchase of merchandise and a consignment of merchandise.

3. Describe the use of the *Consignment In* account; the *Commission Earned* account.

4. When and how is each of these accounts closed ?

5. Define the following terms: *trade discount*, *discount sheet*.

6. Distinguish between trade discounts and cash discounts.

7. If an article is sold at the catalogue price less a trade discount, at what price should it be entered in the purchases journal ?

8. If both trade and cash discounts are allowed, state the way in which the amount of the cash discount is calculated.

Exercise 112. Written

REVIEW

From the following trial balance and notations, prepare

(a) an eight-column working sheet ;

(b) the profit and loss statement ;

(c) the balance sheet.

J. C. Adams

TRIAL BALANCE

Dec. 31, 19—

Cash	\$2,100	
Notes Receivable	6,250	
Accounts Receivable	8,600	
Merchandise Inventory, Jan. 1	15,000	
Furniture and Furnishings	1,000	
Unexpired Insurance	470	
Notes Payable		\$2,500
Accounts Payable		7,400
J. C. Adams, Investment		26,000
J. C. Adams, Drawing		2,220
Merchandise Sales		53,000
Merchandise Discount on Purchases		1,120
Interest Income		210
Merchandise Purchases	48,000	
Rent Expense	1,500	
Salaries	5,850	
Advertising	1,200	
Delivery Expense	1,530	
Sundry General Expense	750	
Merchandise Discount on Sales	130	
Interest Expense	70	
	<u>\$92,450</u>	<u>\$92,450</u>

Notations :

Merchandise Inventory, Dec. 31	\$25,000
Insurance for the year	290
Depreciation on furniture and furnishings, 10 % per year	
Unpaid Salaries	180
Unpaid Light Bill	10
Interest Accrued on Notes Receivable	70
Interest Accrued on Notes Payable	10

INDEX

	PAGE		PAGE
Abstract		Bills of lading	
definition of	295	order	330-331
illustration of	302, 303	straight	160-161
Acceptances, definition of	228	Bookkeeping	
Account, or accounts		definition of	9
balancing an	72	double-entry	9
classification of		Books	
assets	81	of final entry	26
expense	81	memoranda	139
income	81	of original entry	26
liabilities	81	Building	
nominal	82, 291	account	279-281
proprietary interest	81	expenses	
real	82, 291	depreciation	281
C. O. D. accounts	329-330	insurance	281
controlling	295-303	property taxes	281
definition of	22	repairs	281
how to open	23	Business statements, discussion of, 33-47	
in full of account	4	Business transactions, definition of	1
Merchandise Trading	287-290		
monthly statement of	165	Cartage Out account	162
to apply on account	4	Cash	
transferring	73	accrual basis	314
Account-sales statement	344	definition of	1
Accounts Payable		how proved	146-147
controlling account	295	Cash account, balancing the	72-73
definition of	113	Cash discount	168-177
Accounts Receivable		Cash journal	
controlling account	295	four-column	297-299
definition of	113	three-column	173-175
Accruals		two-column	125-127
cash basis	314	Cash reports	146-147
explanation of	309	Check book	
Accrued expenses	311-313	checking stubs in	142
Accrued income	309-310	description of	140
Adjusting entry, definition of	75, 115	illustration of	140
Assets, definition of	36, 81	reconciliation with bank state- ment	142-143
Auto Trucks account	162, 284	Check marks	90
		Check record, illustration of	141
Balance sheet		Checks, definition of	140
definition of	36	Classification of accounts	81-83, 291
equation, definition of	39	Closing the ledger	
equation, illustrations of	39-40	direct method	48-55
forms of	37, 38, 114-115, 327	journal method	56-66
Balancing accounts	72	C. O. D. shipments	
Bank charges for checks, notes, and drafts	222	C. O. D. account	329-330
Bank discount	242-244	necessity for	329
Bank pass book	139	order bill of lading	330-331
Bank statement, monthly	141-142	Collection and exchange	226
Banks		Comparison of discount and interest, 169	
classified as		Consignments	
commercial	138	accounting for	342-343
savings	138	account-sales	344
definition of	138	distinguished from purchases	341
opening an account with	138	terms defined	341

	PAGE		PAGE
Controlling accounts		Exchanges	
Accounts Payable	295, 301	for cash	1
Accounts Receivable	295, 301	for use of property and for	
advantages of	303	services	2
definition of	295	Expense accounts	
illustration of	296-303	closing	52, 60-61
Copartnership. <i>See</i> Partnership		definition of	81
Correcting errors	88-95	Expenses, operating, definition of	34
Credit	11, 16	Figures, form and size	17
Credit memorandum	163-164	Folios	
Credit period	168	definition of	9
Creditor, definition of	4	necessity for indicating	25
Debit	11, 16	Freight and Cartage In account	160
Debtor, definition of	4	Freight terms	146
Delivery Expense account	162	Fuel Inventory and Fuel accounts, 75-76	
Deposit ticket	139	Furniture and Furnishings account,	
Depreciation	281-282, 283, 284	7, 38, 283	
Direct method of closing ledger	48-55	General journal	
Discount		four-column	300
bank	242-244	two-column	128-129
cash or merchandise	168-177	Gross loss, definition of	34
comparison with interest	169	Gross profit, definition of	34
trade	346	Income accounts, definition of	81
Discount of notes	242-248	Indorsements	
Drafts		definition of	101
bank		forms of	101-103
check to purchase	221	object of	101
definition of	221	Insurance	
entries for	222-223	definition of terms	252
form of	222	entries for	253
necessity for	221	register	253, 254-255
commercial		Interest	
charging against account	233	definition of	108
definition of	223	entries for	109, 111
honoring drafts	230	method of calculating	109-110
relation of parties	223	Interest-bearing notes	103, 108, 110
sight drafts		discounting	247
definition of	223	Interest Expense account	109
entries for	225-226	Interest Income account	111
form of two-party	224	Inventory	
indorsement of	224	fuel	75-76
rules for recording	227	merchandise	33-34
summary	233	office supplies	76-78
time drafts		recording merchandise	49, 57
acceptance of	228-229	Investment account, why used, 78, 215-216	
definition of	228	Invoice	
entries for	230	in duplicate	160
form of	229	purchase	145
maturity of	228, 229	sales	145-146
payable after date	228-229	standard form	165-166
payable after sight	229	Journal, or journals	
use of	223	advantages of subdividing, 130-131	
Drawing account		analysis of	14-16
appearance in balance sheet, 79, 216		definition of	9
debits and credits of	79, 216	illustration of	10-11, 12-14
why used	78, 215-216	model set of special	131-135
Entry		subdivisions of	
compound	104	cash	125-128
definition of	9	general	128-130
simple	104		
Erasures, avoidance of	91		
Errors, locating and correcting	88-95		

	PAGE		PAGE
Journal, or journals		Notes payable	
purchases	119-122	definition of	100
sales	122-125	discounting	242-244
Journal method of closing ledger, 56-66		payment of	104, 109
Journalizing		recording of	103-104
definition of	11	Notes receivable	
general principle of	16	definition of	100
Land account	278-279	discounting	245-248
Ledger		payment of	106, 111
closing the	48-74	recording of	105-106
definition of	21	Office Supplies Inventory and Office	
illustration of	24-25	Supplies account	76-77
subsidiary		Omission of cents	11
purchases	302	Opening double-entry books	
sales	301	with both assets and liabilities,	
titles	22	179-183	
Liabilities, definition of	36, 81	with more than one asset, 178-179	
Loss		Opening general-journal entries, 178,	
gross, definition of	34	180, 181, 261	
net, definition of	34	Opening journal entry	12
how sustained	34	Opening merchandise inventory, 183-184	
Maturity of notes	106	Partnership, or copartnership	
Merchandise accounts, closing of,		accounts of	215-217
48-51, 56-60		articles of	214-215
Merchandise		definition of	214
definition of	2	division of profit and loss	217
opening inventory of	183-184	Pass book, bank	139
Merchandise discount		Pencil footings	31
comparison with interest	169	Posting	
definition of	168	definition of	22
on purchases	169-170	of model journal	23
on sales	170-171	Present worth. <i>See</i> Proprietary in-	
Merchandise Inventory account, 49,		terest	
57, 183		Principles of debit and credit, sum-	
Merchandise Purchases account, 11,		mary of	16, 83-86
49, 50, 57, 58		Profit	
Merchandise Sales account, 14, 50,		gross, definition of	34
51, 58, 59		net, definition of	34
Merchandise Trading account	287-290	Profit and Loss account	
Monthly bank statement		closing the	53, 61-62
form of	142	definition of	51, 59
reconciliation of check-book		Profit and loss statement, 34-35,	
balance with	142-143	114, 185, 326	
Monthly statement of account	165	Proof trial balance	66
Negotiable instruments	100	Proprietary interest, definition of, 36, 81	
Net loss, definition of	34	Proprietor's account	
Net profit, definition of	34	balancing the	53-54, 62-63
Nominal accounts	82, 291	Investment and Drawing	78-80
Note register	234-236	use of	11
Notes, promissory		Purchase order	159
advantages of	100	Purchases journal	119-121, 297
charging unpaid notes	237	Purchases ledger	302
date of maturity of	106	Purchases returns and allowances,	
definition of	100	162-164	
discount of	242-248	Real accounts	82, 291
interest-bearing	103, 108-113	Receipt	
joint note	250	definition of	146
joint and several note	250	form of	146
kinds of	100	Rechecking	89-90
payment of	104, 106, 109, 111	Reconciliation, bank statement and	
renewal of	248-249	check-book balances, 142-143	

